Corporate social and environmental disclosure practices : an international comparison of UK, Indian and Egyptian corporations

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Corporate Social and Environmental Disclosure Practices:

An International Comparison of UK, Indian and Egyptian Corporations

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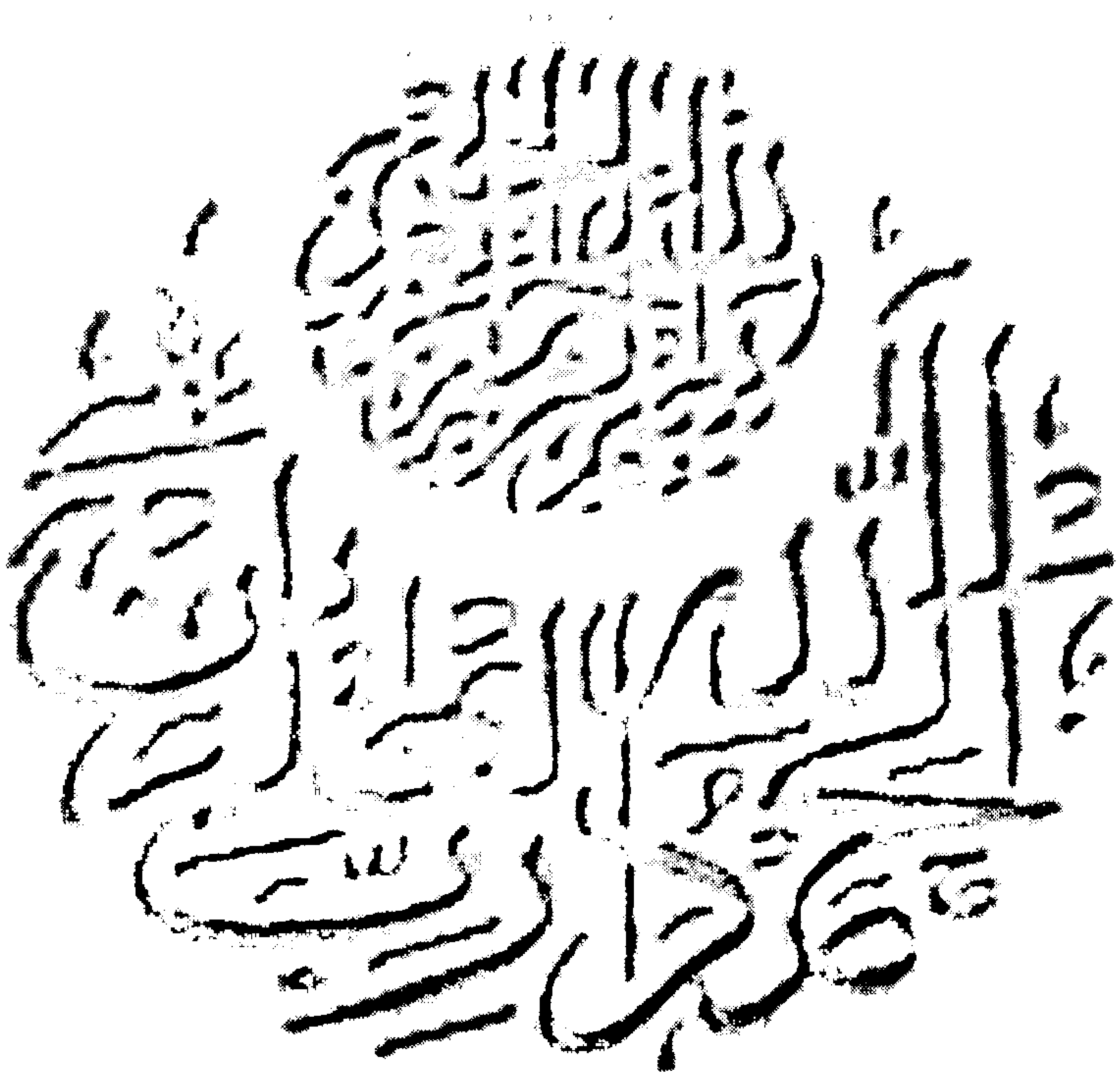

"All Praise be to Allah"

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Abstract

There is a degree of consensus emerging that the conventional financial reporting model is too narrow and in failing to address Corporate Social Responsibility (CSR) issues explicitly, is enabling reporting enterprises to by-pass disclosure of these issues. The purpose of this study is to advance understanding of CSR disclosure practices of both developed and developing countries at a nation-specific level, thereby broadening our understanding of how socio-economic factors impact a country's financial accounting and reporting in general and social and ethical disclosures in particular.

The need for improved disclosure standards of social and environmental performance data is not restricted to enterprises based in developed countries, nor is it peculiar to the private sector. In many developing countries and transitional economies, access to external funding will depend in part upon improved corporate transparency and accountability. Despite this, most research conducted to date in the area of CSR has been based on the experiences of the United States, Australia or Western European nations. This research examines the reporting practices of the top 100 listed companies in Egypt, India and the United Kingdom through the use of a 36-item disclosure index which was applied to corporate websites and annual reports for financial years 2001 and 2002.

The primary findings of the study, are (1) while culturally sensitive, CSR reporting is not a culture specific phenomenon; (2) reporting medium does make a difference in the quantity and type of disclosure; (3) stage of economic development does not seem to be an explanatory factor regarding quantity or nature but may help explain type of disclosure; (4) religion does not seem to impact the CSR disclosure decision; (5) CSR disclosure decision is much more complex and multifaceted than previous academic research has indicated and can not be properly explained by a few variables or a single theory.

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Glossary of Abbreviations

ACBE	Advisory Committee on Business and the Environment (UK)
BIT	Bilateral Investment Treaties
BSE	Bombay Stock Exchange
CASE	Cairo and Alexandria Stock Exchanges
CSR	Corporate Social Responsibility
EFFAS	European Federation of Financial Analysts Societies
EMAS	Eco-Management and Audit Scheme
EMS	Environmental Management System
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
IASC	International Accounting Standards Committee
IFR	Internet Financial Reporting
LDCs	Lesser Developed Countries
LSE	London Stock Exchange
MENA	Middle East and North Africa
NGO	Non-Governmental Organisation
SBA	Swiss Bankers Association
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission (USA)
UNEP	United Nations Environment Programmes
XBRL	eXtensible Business Reporting Language

Chapter One:

Context of the Study: An Overview

1.1 Introduction: The Rise of Corporate Social and Environmental Responsibility

Corporate Social and Environmental Reporting (CSR) was defined by Gray, et al in 1987 as "the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly) companies; beyond the traditional role of providing a financial account to the owners of capital, in particular shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders" (Gray et al., 1987).

Social and environmental accounting and reporting, however, are not recent phenomena that have sprung up as a result of increased concern over environmental issues in the late 1980's. "Modern" CSR: can be thought of as one manifestation of the organisation-society interactions that have grown during the decades since World War II. Over the years, CSR has advanced in fits and starts and has the look of an ad hoc response rather than a precisely definable or systematic activity. Much research has been done in the area -mostly based on the experience of the United States, Australia or Western European nations- but fall short of identifying anything but the most obvious trends in disclosure practices.

In 1990, a U.S. public opinion poll reported that most people feel that the environment is so important that requirements and standards cannot be too high, and continuing improvements must be made regardless of cost (Gamble, et al., 1995). Results of the poll suggest that stakeholders are concerned with the way in which corporate entities are responding to social issues, in general, and environmental concerns in particular. Socially responsible investing is also having a major impact on the financial world. According to one estimate, of nearly 10 years ago, the total amount of investments selected on the basis of ethical, environmental, and political criteria probably exceeded a trillion US dollars in 1993 alone (Kreuze, et al., 1996). For some investors, a company's involvement in South Africa was, and may continue to be, of interest. Other concerns include issues as diverse as nuclear waste and its disposal, environmental effects of corporate activity, health dangers of products produced and sold, child labour and fair trade practices.

Corporate social reporting has evolved in Western Europe as well over the past several decades. Eco-balance sheets and quantified environmental balance sheets and accounts are becoming more and more popular with European companies. Corporate social accountability is likely to be an increasingly important element of the Western European psyche in the years to follow, evidenced not only by increased corporate, professional and academic attention, but also developments of the European Union and European Economic Area requiring greater corporate social responsibility and accountability (Adams et al., 1998).

Unfortunately, despite its growing importance, the accounting profession is not very definitive concerning the reporting of CSR information in published reports. When professional accounting standards do address CSR reporting, it is only in the context of contingencies or liabilities resulting from environmental contamination. For example, Statement of Financial Accounting Standards No.5 (SFAS 5) requires that a liability be recognized in financial statements if a loss is probable and the amount of the loss can be estimated reasonably. If the loss is not probable or cannot be measured reasonably, it must be disclosed in the footnotes. If the chance of the loss occurring is remote, it need not be disclosed at all (Kreuze et al., 1996). With environmental obligations, measuring the amount of a potential loss is frequently unreliable. Consequently, most companies do not report obligations in the financial statements but disclose potential environmental obligations only in the footnotes until costs become measurable. Measurements often are not available until the cash payments associated with the clean up are made. It is this form of post facto disclosure which stakeholders have been increasingly finding insufficient. Because neither national company legislation nor generally accepted accounting principles (GAAP) frameworks have made broad CSR disclosures mandatory, disclosures in annual reports are usually confined to the largest enterprises, limited in extent and rarely comparable from enterprise to enterprise. As a result, such disclosures have seldom been seen as being useful to external decision-makers (Kreuze et al., 1996).

The conventional model of financial accounting and reporting is one, which emphasizes the importance of financial performance. The annual report, derived from the conventional model, highlights financial assets and liabilities, shareholder worth, operating income and taxes, and changes in the financial position of the enterprise over the reporting period. The conventional model contains relatively little by way of predictive or forward-looking information. The conventional model also routinely ignores environmental issues unless they have a financial impact of sufficient materiality to trigger the recognition and measurement criteria contained in most established GAAP frameworks. Thus, only a limited range of environmental disclosure are required by the conventional accounting framework: these few instances tend to focus on environmental liabilities and provisions, contingent liabilities and where appropriate, exceptional items, impaired assets and long term de-commissioning costs. Even these are underreported or unreported in the face of uncertainty on timing or estimation.

The conventional reporting model has also been criticised for minimising the role given to non-financial data. Although social and environmental issues have played a larger role in corporate strategy over the last decade, it is nevertheless apparent that annual reports at present fail to convey either the significance of these issues to the reporting entity or any adequate description of how corporate management is attempting to integrate CSR strategy into overall corporate strategy (Adams, 1998). Reporting, as such, takes a minimalist approach and focuses largely on meeting legal obligations and targets.

Once measured, CSR performance can be communicated via a number of different media. Progressive companies use two, three or four different avenues to convey their CSR performance record to interested stakeholder groups via any combination of the following:

a) The annual report
b) A corporate stand-alone CSR/ Corporate Governance report.
c) A local (site) report
d) Internet web site
e) An official register maintained by the regulator

CSR reporting currently lacks credibility in the eyes of certain external stakeholder groups due to the absence of certain qualitative characteristics, which exist in the financial reporting domain. These include, among others, the following:

a) A guarantee of completeness
b) Comparability (through standardisation)
c) Consistency of measurement
d) Absence of credible external verification

1.2 Problem Definition

The weight of available evidence indicates a strong and growing interest in corporate social and environmental performance not just from the relevant national or regional regulators, but also from a variety of other stakeholders. At present these stakeholders find it difficult to interpret CSR disclosures on a systematic basis because of **(a)** the voluntary nature of such reporting, and (b) the general lack of standardisation regarding the computation and disclosure of performance indicators inhibits inter-company comparison.

The need for improved disclosure standards of social and environmental performance data is not restricted to enterprises based in developed countries, nor is it peculiar to the private sector. In many developing countries and transitional economies, access to external funding will depend in part upon improved corporate transparency and accountability. In order to improve the quality and quantity of corporate social reporting, it is important to study not only the current extent and quality of disclosure to determine best practice and detect trends, but also to study the factors influencing corporate social accountability and reporting. This research, therefore, seeks to explore some of the factors that are related to social practices, especially corporate social and environmental disclosure practices among listed corporations in the United Kingdom, India and Egypt via publicised documents and data sources.

1.3 Motivation of the Study

Most research conducted to date in the area of CSR has been based on the experience of the United States, Australia or Western European nations. When research was conducted in lesser developed countries (LDCs), the focus has primarily been either African or eastern Asian countries (see Andrew et al, 1989; Teoh and Tong, 1984; Wallace, 1988; Abayo et al, 1993; Savage, 1994; Tsang, 1998; Quazi and O'Brien, 2000). International surveys, such as those conducted by KPMG, of Environmental (1993, 1996, 1999) or Sustainability Reporting (2002), have also failed to comment, even in passing, on the state of environmental or social reporting efforts in the majority of developing countries in general, and any country in the Middle East and North Africa (MENA) region in particular despite growing contributions to regional and world economies.

A study by Singh and Ahuja (1983) on Indian CSR was the first ever study from the context of a developing country in general and South Asian countries in particular. Until 1997, it was the *only* study from the South Asian context that was reported in an international journal. However, in 1997 Hedge et al. made a CSR case study of an Indian company, as India is one of very few developing countries with a fairly long history of CSR. For example, the Cement Corporation of India produced a complete set of social accounts including social balance sheet and income statement as far back as fiscal year-end 1973 (Gray *et al.*, 1996).

In their 1983 research, Singh and Ahuja studied 40 annual reports of public sector companies for fiscal year 1975/76. Singh and Ahuja (1983) did not study private sector practices, which are now making a significant contribution to the Indian economy. Nearly 15 years later, Hegde *et al.* (1997) provide the explanation that most Indian private companies do not make formal social disclosures, as they are not statutorily required. Given the increased emphasis on privatisation, recent attention of the global companies to the vast Indian and nearby markets and the relatively well developed stock exchanges, a study of private sector CSR would certainly provide useful insights into the CSR practices in developing countries in general and South Asian countries in particular. In addition, the study of Singh and Ahuja relates to the Indian CSR practices of 25 years ago. Thus, more recent studies are needed to shed light on the current CSR practices in South Asian countries.

The purpose of this study is to advance understanding of CSR disclosure practices of both developed and developing countries at a nation-specific level, thereby broadening our understanding of how socio-economic factors impact a country's financial accounting and reporting in general and social and ethical disclosures in particular. For this reason, two developing countries, Egypt and India, were chosen for comparison with the United Kingdom, a Western baseline, for the purposes of this study.

A fundamental problem faced at each stage of a comparative research study is that of equivalence. At the highest level of abstraction, the research topic should be identical across cultures. The conceptual and methodological approaches to researching the topic should also be equivalent in meaning, but not necessarily identical in structure, across cultures. This equivalence applies to the selection of a topic, sampling, translation, measurement and instrumentation, administration, and analysis (Adler, 1984).

Egypt and India share certain factors that make them highly comparable research environments. First, India and Egypt are both examples of developing countries whose financial reporting practices were based on the British model as a result of colonisation. It was deemed important to control for this factor by choosing countries with a similar colonial history as some researchers (see Gray et al, 1996, Mueller, 1967) have proposed colonial history as one possible explanation for variations in disclosure practices.

Secondly, although officially established in 1888 and 1903, respectively, the Cairo and Alexandria Stock Exchanges remained dormant between 1956 and 1992 as a result of the central planning and socialist policies adopted in the mid 1950s (CASE, 2002). By the end of June 2002, 1136 companies were listed on the stock exchange with a market capitalization of LE 118.6 billion, compared to 656 companies listed in 1992 with a market capitalization of LE 10.8 billion.

The Securities and Exchange Board of India (SEBI) regulate India's stock exchanges. While some 22 exchanges can be found throughout the country, the National Stock Exchange, Mumbai (BSE) was established in 1993, to provide a level playing field for investors nationwide. By 1995, the BSE had become the countries largest exchange and, since 2000, has operated three market segments, namely capital markets, wholesale debt market, and futures and options. In March 2003, the BSE had a market capitalisation of Rs1.4 trillion, with some 895 members, including multiple members listed on more than one segment. Trading volume in 2002-03 was Rs2.1 trillion, accounting for 86% of all market trading activities in India, again making it highly comparable in size and turnover with the CASE in Egypt.

A third justification for the choice of research environments relates to economic climate. In 1990/91, the Egyptian government started its economic reform and restructuring program the objectives of which were macroeconomic stability, financial sector reform and the reduction of price distortions and obstacles to foreign trade. Key elements of the program have been the introduction of a privatisation program, the gradual replacement of central planning by market economics, the gradual reduction of government spending on subsidies, the deregulation of interest rates and foreign exchange, the introduction of Capital Market Law and trade liberalisation.

For many years after independence, Indian economic policy also emphasised central planning with the government setting goals for, and closely regulating, private industry. In the late 1970s, the government began to reduce state control of the economy, but made very slow progress toward this goal. By 1991, the government still ran many of the major industries and maintained most of the infamous 'government permit raj' that required government permission for many routine business decisions. During the Persian Gulf conflict in 1991, India faced a financial crisis because of rising oil prices, which stimulated economic reforms and liberalization. These reforms removed most of the government regulations on investment, including many on foreign investment, and eliminated the quota and tariff system that had kept trade at low levels. Reforms also deregulated a number of industries and privatized many public enterprises. This similarity in stage and nature of economic development also supported the selection of Egypt and India as comparable research environments.

A final justification for the selection of Egypt and India is religion. The influence of religion upon accounting is not an issue that has been explored to a great extent in the conventional literature, although it has been argued that the two might be connected (Lewis, 2001). Traditionally, religion has had a role in shaping and enforcing ethical behaviour such as truthfulness, honesty and social justice. A community in which such values are held in high regard may be marked by an elevated degree of trust in business dealings and financial affairs.

Culture governs how individuals perceive their responsibilities and carry out their duties. Culture has also been recognised as a likely determinant of accounting (Gray, 1988; Perera, 1989). If culture influences accounting, then so surely does religion, if only because religion affects cultural values (Hamid *et al.*, 1993; Lewis, 2001). It stands to reason that if religion has a substantial impact on the reporting practices of corporations, this effect can be more readily identified by comparing dissimilar cultures. India is approximately 80% Hindu and 10% Muslim, whereas Egypt is 89% Muslim and 10% Coptic Christian, making them ideal research environments.

1.3 Research Questions

In the case of developing nations, accounting information is seen as both passive and active. Passive in the sense that financial reporting practice may be explained by a country's particular cultural history or stage of development (Mueller, 1967) and active in that the choice of financial reporting practices shape economic development (Dahawy et al, 2002). Enthoven (1965) explains that:

> Accountancy has a dual effect on economic development. On one hand it is the basis for generating sufficient investor contribution to stimulate the flow of investment capital and restrict unproductive savings practices. On the other hand, effective accounting techniques are a necessary perquisite to the efficient use of capital. Both aspects are important and will play a role in a nation's economic programming and the national accounting on which it is based.

This research examines the following questions:

1. What CSR related disclosures are being made voluntarily by listed corporations in the UK, India and Egypt?
2. In addition to annual reports, what, if any, CSR disclosures are being made?
3. Are disclosures industry sensitive?
4. Do disclosures differ by reporting medium?
5. Do disclosures differ based on ownership type?
6. What cultural aspects influence the reporting decision?
7. Is CSR disclosure a universal or culture-specific phenomenon?

1.5 Research Methodology

The study is conducted mainly by adopting the inductive approach. This selection is based in accordance with the researcher's beliefs and the nature of the research topic. The researcher's ontological and epistemological views and her main objective as to understand and explore the phenomenon under investigation without any intention of creating changes in the phenomenon being studied placed her on the interpretive side of the Burrell and Morgan Paradigm (1979). The study is an exploratory one which reflects the need for a comprehensive investigation to provide sufficient and effective understanding of the disclosure phenomenon. To achieve this objective, the methodology chosen should provide the researcher with as open an agenda as possible. Within such limitations, it was not enough for the study to suggest *a priori* assumptions or hypotheses for such an exploratory study (Strauss and Corbin, 1990).

The existing literature related to the CSR disclosure phenomenon is mainly centred on the Anglo-Saxon culture, as explained in the preceding section, which differs from the research environments where the study was conducted. Using the existing literature would produce hypotheses which may be irrelevant to the site of the phenomenon being studied. Strauss and Corbin (1998) supported such an issue and suggested that those foreign students who plan to collect data in their own countries should use qualitative methods in order to reflect their societies' cultures. Tomkins and Groves (1983) suggested that in order to gain more understanding of accounting practices in their natural setting; the qualitative approach is more suitable.

Among the different approaches in the qualitative approach, the research was conducted based on grounded theory. Grounded theory is a qualitative approach which liberates the researcher from imposing *a priori* assumptions and helps to discover what lies behind a specific phenomenon. This methodology enables the researcher to begin with a broad area of study and offers the researcher the freedom to go to the site of study without constructing any hypotheses. It also offers the researcher a broad range of flexibility to understand the phenomenon under investigation (Stauss and Corbin, 1994, 1998). Grounded theory's characteristic of sensitivity to behavioural aspects is another reason for choosing such a methodology (Strauss and Corbin, 1998). Accordingly, the researcher decided that grounded theory is an appropriate approach for conducting this study.

1.6 Structure of the Thesis

There has been a great deal of research recently into the motives of managers and companies' decision to disclose social and environmental information. When explaining why particular disclosures are made, or in describing how organisations should make particular disclosures, reference is made to a particular theoretical perspective. However, as there is no *perfect* theory for social and environmental accounting, there is much variation in the theoretical perspectives being adopted. When efforts have been made to explain social and environmental disclosure practices, recent research has tended to rely upon the neo-pluralist approaches of legitimacy theory, and to a lesser extent, stakeholder theory, both of which have their roots in political economy theory. Chapter **two** of this research critiques the various theoretical perspectives adopted in explaining the CSR phenomenon.

CSR accounting research is not a new phenomenon. Social accountability issues date back 30 years to the publication of a number of important contributions. Despite this, a fundamental problem in the field of CSR research is that there are, as of yet, no standard universal definitions that provide a framework or model for the systematic collection, organisation, and analysis of corporate data. For this reason, CSR has tended to mean different things in different research environments. Chapter **three** reviews approximately 30 years of CSR research with particular emphasis on the different media used to communicate CSR information.

It is widely noted in academic literature that culture impacts business practice in general and the development of accounting and reporting systems in particular. Chapter **four** overviews the role and influence of culture on the development of accounting systems and highlights how the specific accounting, reporting and regulatory frameworks were developed in the case of the United Kingdom. As outlined in the preceding section, one of the main research questions of the present study is whether CSR is a universal or culture specific phenomenon, therefore chapters **five** and **six** describe the socio-economic conditions surrounding the development of accounting systems in the context of Egypt and India respectively.

In the preceding chapters, the literature on corporate social responsibility and the legal framework for corporate disclosure in the UK, India and Egypt, which helped to shape the theoretical framework for this research and contribute to the selection of its methodology, were presented. Chapter **seven** commences by over viewing the methodological philosophy, issues involved in cross-cultural business research and documenting the research populations. It continues by defining the research methodology and describing the research instrument, and concludes by describing the research pilot study.

The first half of chapter **eight** presents the comparative results for the three nations under study, while the second half of the chapter discusses fully similarities as well as differences in the nature, type and medium of disclosure. Chapter **nine** provides a summary of the findings of this research as well a discussion of the limitations. The thesis concludes with recommendations for business as well as further research.

Chapter Two:

Theoretical Perspectives

2.1 Introduction

Empirical research has indicated an increase in the amount of environmental and social disclosures by companies over the past several decades (Gray *et al.*, 1996). The emergence of well-organised and vocal interest groups, such as anti-apartheid movements, Amnesty International and Greenpeace, has coincided with the increase in voluntary CSR. The role of these interest groups has drawn attention to the incongruity between organisational actions and the values of society (Arnold and Hammond, 1994; Williams, 1999). Some accounting researchers have therefore argued that the increase in public and political statements being made by organisations on environmental and social issues, is directly associated with more intensive social and political pressures applied by interest groups (Millstone and Watts, 1992; Neu *et al.*, 1996; Walden and Schwartz, 1997; Williams, 1999).

Environmental and social accounting disclosures are seen by some, as a mechanism that organisations utilise in order to enhance their status, provide information to stakeholders and discharge the social contract between the entity and the relevant public (Gray *et al.*, 1988, 1996; Linblom, 1994). Guthrie and Parker (1990, pp 171-172) stated that environmental and social accounting disclosures "appeared to reflect public social priorities, respond to government pressure, accommodate environmental pressures and sectional interests and protect corporate prerogatives and projected corporate images".

International comparative studies of environmental and social accounting disclosures are limited and largely only descriptive in nature (Roberts, 1990; UNTEC, 1992; Adams *et al.*, 1995). International research is further limited in that the majority of studies have focused on developed nations, particularly the United States, Australia, the United Kingdom, and countries in Western Europe. The lack of consensus on a relevant theoretical framework for studying CSR practices may be one factor inhibiting intensive investigation of the phenomenon (Gray *et al.*, 1995a). Nonetheless, the existing literature has noted the importance of country of origin as a determinant of environmental and social disclosures and significant variations in practices across national boundaries (Andrews *et al.*, 1989; Hackston and Milne, 1995; Gray *et al.*, 1996; Williams, 1999)

There has been a great deal of research recently into the motives of managers and companies' decision to disclose social and environmental information. When explaining why particular disclosures are made, or in describing how organisations should make particular disclosures, reference is made to a particular theoretical perspective. However, as there is no *perfect* theory for social and environmental accounting, there is much variation in the theoretical perspectives being adopted (Deegan, 2002). When efforts have been made to explain social and environmental disclosure practices, recent research has tended to rely upon the neo-pluralist approaches of legitimacy theory, and to a lesser extent, stakeholder theory, both of which have their roots in political economy theory.

The purpose of this chapter is to achieve two main objectives:

1. Overview the different theoretical perspectives that can be used to develop the researcher's theoretical sensitivity which is one of the main requirements of the Strauss and Corbin (1998; 1990) grounded theory methodological approach. Theoretical sensitivity is "the attribute of having insight, the ability to give meaning to data, the capacity to understand, and capability to separate the pertinent from that which isn't....It is theoretical sensitivity that allows one to develop a theory that is grounded, conceptually dense, and well integrated, and to do this more quickly than if this sensitivity were lacking" (Strauss and Corbin, 1990, p42).
2. Critique the various theoretical perspectives adopted in explaining the CSR phenomenon.

2.2 Political Economy

Bourgeois political economy, a derivative of the modern liberalism perspective, is being increasingly used in CSR research. Based on traditional roots of classical liberalism, this strand of political economy adopts a wider set of features incorporating ideas from the radical dimension such as notions of social justice and community harmony. As noted by Clark (1991, p. 87), the modern liberalism point of view is of an "eclectic and hybrid nature, which makes it less pure than other ideologies, but contributes greatly to its flexibility and resiliency".

The seminal work by Ramanathan (1976) adopted the Bourgeois political economy perspective in deriving the concept of a 'social contract', suggesting that the existence of an organisation relies on the support of society in general. If it is perceived that a firm is engaging in undesirable social activities, then it is likely that society will withdraw its endorsement of the enterprise, leading to its demise. In order to avoid this situation, and to maintain their position in society, it is conjectured that management may release information related to their environmental and social activities. Guthrie and Parker (1990) supported this view, arguing that Bourgeois political economy offered a number of valuable insights to explain CSR practices.

Bourgeois political economy concentrates on the interaction of actors in a pluralistic world (Clark, 1990). This implies that a number of different individuals, institutions and organisations, seeking to preserve their own self interests, attempt to operate within the system through various relationships with others (see, e.g., Dahl, 1982, 1986). The theory emphasises that actors, whether they are individuals or organisations, have the right to pursue their own goals and self interests (Clark, 1991). These rights, however, are moderated by the social environment in which they exist (Gray *et al.*, 1996).

The political environment could affect the development of accounting both directly and indirectly. The political freedom of a country is important to the development of accounting. Belkaoui (1983, 1985) argues that the political atmosphere, in general, and political rights and civil liberties, in particular, have significant influence on the development of accounting practices. In addition, the political environment affects accounting in an indirect way through its effect on the national culture and the economy. The form of government influences national culture, which in turn influences the business and accounting environment. Moreover, many believe that factors in the political environment, such as stable governments and a stable currency can significantly affect the economic environment, which in turn, may have an impact on the accounting environment (e.g. Barro, 1991; Larson and Kenny, 1995).

Bourgeois political economy also considers the role of the government. Proponents argue that governments play an important part in protecting the interests of individuals seeking to achieve their objectives (Okun, 1970; Shapiro, 1986). Clark (1991) argued that government intervention is particularly advantageous in the face of market failures such as imperfect competition, externalities, instability, inequality, and socially undesirable outcomes. If the activities of the organisation impinge on or are perceived to impinge on the wider community, governments may intervene to protect individual rights within the community (Gray *et al.*, 1995a). However, intervention may jeopardise the self-interests and goals of the enterprise (Guthrie and Parker, 1990).

Management may, therefore, provide voluntary social and environmental information for two purposes. First, management may make disclosures to protect their self-interests in order to foster, sustain and legitimise relationships by presenting an image of supporting society in general. Second, management may release social or environment related details in order to avoid possible regulatory intervention. Based on the general principals of modern liberalism embodied in

Bourgeois political economy, Williams (1999) further argued that firms voluntarily provide social and environmental information in response to the pressures of the social, political and economic systems that surround them. He, therefore, suggested that cross-national differences in the quantity of voluntary CSR practices might be due to variations in country level characteristics that shape the socio-political and economic systems of respective countries.

2.3 Legitimacy Theory

Legitimacy theory argues that organisations can only continue to exist if they are deemed by society to be operating within a value system, which is acceptable to society. Thus, to maintain their legitimacy, companies may disclose information voluntarily to try and improve communication with society, in order to try to ensure that society believes they are operating within society's value system. This concept was developed by Lindblom (1984), who suggested that organisational legitimacy can be explained in the following terms:

1. Legitimacy is not synonymous with economic success or legality
2. When the organisational goals, output and methods of operation conform to society's norms and values, legitimacy will exist
3. The challenges to legitimacy are related to the size of the organisation, and to the amount of social and political support it receives.
4. Challenges to legitimacy may involve legal, political or social sanctions.

This view of legitimacy theory can be seen as being mostly concerned with the legitimacy of individual firms. Another aspect of legitimacy theory deals with the question of the legitimacy of the system as a whole, e.g. socialism or capitalism. This view of legitimacy can be more directly linked to political economy theory. It has been argued by Lehman (1995) that the political environment in which firms operate will influence accounting practices. Lehman states (p. 60):

> "In order to understand the exact nature, direction and momentum of social practices such as accounting....they need to be related to the social circumstances that give rise to them. These circumstances include two fundamental aspects of any society: how it organises to produce the means of existence for its members, and how that social product is distributed. Both aspects are integral to understanding accounting practices as we know them today and as they could be in the future".

Legitimacy theory is considered to be a systems-oriented theory, and as such, the entity is assumed to be influenced by, and in turn to have influence upon, the society in which it operates. Corporate disclosure policies are considered to represent one important means by which management can influence external perceptions about their organisation. The underlying premise in legitimacy theory, as well as political economy theory from which it stems, is that society, politics and economics are inseparable and economic issues cannot meaningfully be investigated in the absence of considerations about the political, social and institutional framework in which the economic activity takes place.

According to Guthrie and Parker (1990, p166):

> The political economy perspective perceives accounting reports as social, political, and economic documents. They serve as a tool for constructing, sustaining, and legitimizing economic and political arrangements, institutions, and ideological themes, which contribute to the corporation's private interests. Disclosures have the capacity to transmit social, political, and economic meanings for a pluralistic set of report recipients.

Furubotn and Richter (1998, p. 24) state:

> It should be noted that a theory of institutions may not lead to the conclusion that unique institutional equilibrium will always emerge (Schotter, 1981 p12) Note further that political and economic processes can not be separated in this context. The New Institutional Economics is therefore closely related to the new political economics (public choice and constitutional economics) and political science proper.

This is consistent with the view taken by other researchers that organisations are not considered to have any inherent right to assets or even to exist. Organisations exist to the extent that the particular society considers that they are legitimate, and if this is the case, the society confers upon the organisation the state of legitimacy (Deegan, 2002).

The idea of *legitimacy* can be directly related to the concept of a *social contract*. Legitimacy theory itself directly relies on this concept. Specifically, it is considered that an organisation's survival will be threatened if society perceives that the organisation has breached its social contract (Milne and Patten, 2002). Where society is not satisfied that the organisation is operating in an acceptable, or legitimate manner, then society will effectively revoke the organisation's *contract* to continue its operations, by any one of numerous methods. Shocker and Sethi (1973, p. 67) provide the following overview of the concept of a social contract:

> Any social institution – and business is no exception- operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:
>
> 1. The delivery of some socially desirable ends to society in general, and
> 2. The distribution of economic, social, or political benefits to groups from which it derives its power.
>
> In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval.

Legitimacy is considered to be a resource on which an organisation is dependent for survival. However, it is a resource that the organisation can impact or manipulate. (Woodward, et al. 2001) Consistent with resource dependence theory, legitimacy theory would suggest that whenever managers consider that the supply of the particular resource is vital to organisational survival, then they would pursue strategies to ensure the continued supply of the resource.

(Deegan, 2002) In relation to legitimacy, such strategies may include targeted disclosures, or perhaps controlling or collaborating with other parties who in themselves are considered to be legitimate (Fiedler and Deegan, 2002).

Legitimacy itself has been defined by Lindblom (1994, p2) as:

> ...a condition or status, which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.

She went on to argue that an organisation may employ four legitimating strategies when faced with different legitimating threats. Thus, in the face of failure of the organisation's performance such as the Exxon Valdez oil spill, the organisation may:

1. Seek to "educate" its stakeholders about the organisation's intentions to improve that performance;
2. Seek to change stakeholders *perceptions* of the event without actually changing the organisation's performance;
3. Distract or manipulate attention away from the issue of concern by concentrating on some positive activity not necessarily related to the failure itself;
4. Seek to change external expectations about its performance.

It is argued then, that organisational behaviour is an attempt both to comply with the demands of others and to manage the dependencies that create constraints on organisational actions. The more critical and scarce the resources required by the organisation, the greater the control over the organisation those with the resources possess, and the greater the attention they receive from the organisation (Milne and Patten, 2002).

Reflecting the overlapping nature of many theories, the notion of legitimacy is also central to institutional theory. Under this theory, organisations will change their structure or operations to conform to external expectations about what forms or structures are acceptable or legitimate. However, in contrast to legitimacy theory, wherein there is perceived to be an ability of managers to alter perceptions of legitimacy, perhaps through disclosures, under institutional theory managers are expected to conform with "norms" that are largely imposed upon them (Deegan, 2002). Different types of societies, i.e. capitalist, socialist, and feudal, etc., will be characterised by different social institutions and will place differing emphasis on the various importance of these institutions.

Current research provides evidence that corporate social and environmental reporting is motivated by a desire, by management, to legitimise various aspects of their respective organisations. Recent studies (Deegan and Gordon, 1996; Deegan, 2002; O'Donovan, 2002; Deegan *et al*, 2002; O'Dwyer, 2002) provide evidence consistent with the view that public disclosure of social and environmental information, in media, such as the annual report, is undertaken for legitimising purposes rather than an acceptance on the part of companies and their management of an accountability or responsibility to disclose information to those who have a right to know.

While there are a number of possible motivations for managers to voluntarily disclose CSR information, desire to legitimise an organisation's operations has been shown to be one of the main forces driving disclosure related decisions. Other motivations, identified in the literature, might include the following:

1. The desire to comply with legal requirements
2. Economic rationality considerations – Termed in recent years *The Business Case for CSR*, refers to the fact that appearing to do the right thing may have some bottom-line business advantages.

3. A belief in an accountability or responsibility to report
4. A desire to comply with national or international borrowing requirements
5. To comply with community expectations and comply with the "social contract"
6. To manage particular stakeholder groups.
7. To attract investment funds
8. To comply with industry requirements, or particular codes of conduct
9. To forestall efforts to introduce more onerous disclosure regulations.
10. To win particular reporting awards.

There could, of course, be several motivations simultaneously driving organisations to report social and environmental information and expecting that one motivation might dominate all others is probably unrealistic. Due to the overlapping nature of a number of theories, and because these theories can provide slightly different and useful insights, there has been a move by some researchers to use more than one theory to provide an explanation for particular managerial actions (Feidler and Deegan, 2002).

Stakeholder theory may provide some useful insights to the current research. Stakeholder theory emphasises the need to manage particular stakeholder groups, particularly those that are deemed to be powerful, because of their ability to control resources that are necessary to the organisations' operations. This may be particularly relevant in developing countries, transitional economies and highly regulated industries.

Gray et al (1996, p45) state in relation to stakeholder theory:

> Here, the stakeholders are identified by the organisation of concern, by reference to the extent to which the organisation believes the interplay with each group needs to be managed in order to further the interests of the organisation. The interests of the organisation need not be restricted to the conventional profit-seeking assumption. The more important the stakeholder

> to the organisation, the more effort will be exerted in managing the relationship. Information is a major element that can be employed by the organisation to manage or manipulate the stakeholder in order to gain their support and approval, or to distract their opposition and disapproval.

This is to say that information is disclosed for strategic reasons, rather than on the basis of any perceived responsibility or accountability. Managers' main incentive to disclose information about their various programs and initiatives to particular powerful stakeholders is to indicate to them that they are conforming to stakeholders' expectations.

Legitimacy theory focuses on society and compliance with the expectations of society as embodied in the social contract. However, *society* is clearly made up of various groups having unequal power or ability to influence organisations and other groups. Stakeholder theory explicitly acknowledges this fact. The insights provided by stakeholder theory can help in identifying which groups might be relevant to particular management decisions, and perhaps, which expectations the organisation has to pay more attention to conforming with.

Deegan (2002) stated that:

> ...it seems important to remember the links legitimacy has with other theories, such as stakeholder theory, and the benefits that can accrue from trying to see a particular occurrence through more than one view (theory) of the world.

2.4 Stakeholder Theory

Freeman's (1984) work provides a solid foundation for the ongoing effort to define and build stakeholder models, frameworks and theories. Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on.

A primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern. Primary stakeholder groups typically are comprised of shareholders and investors, employees, customers, and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due (Clarkson, 1995: 106).

There is a high level of interdependence between the corporation and its primary stakeholder groups. If any primary stakeholder group, such as customers or suppliers, becomes dissatisfied and withdraws from the corporate system, in whole or in part, the corporation will be seriously damaged or unable to continue as a going concern. From this perspective, the corporation can be defined as a complex set of relationships between and among interest groups with different rights, objectives, expectations and responsibilities. The corporation's survival and continuing success depend upon the ability of its managers to create sufficient wealth, value or satisfaction for those who belong to each stakeholder group so that each group continues as a part of the corporation's stakeholder system. Failure to retain the participation of a primary stakeholder group will result in the failure of that corporate system.

Secondary stakeholder groups are defined as those who influence or affect, or are influenced or affected by, the corporation, but are neither engaged in transactions with the corporation nor are they essential for its survival. The media and a wide range of special interest groups, such as lobbyists and NGO's, are considered as secondary stakeholders under this definition. They have the ability to mobilise public opinion in favour of, or in opposition to, a corporation's performance. Despite the fact that corporations are not dependent on secondary stakeholders for their survival, they can cause significant damage to a corporation and as such, are still a force to be dealt with.

Stakeholder theory may provide valuable insights in the field of CSR. For example, occupational health and safety or employment equity and discrimination are issues of sufficient concern to society as a whole to result in legislation and regulation, but they are also issues of concern for all corporations in terms of their relationships with employee stakeholder groups and governments. Similarly, the social issues of product safety or truth in advertising have also led to legislation and regulation, but from a corporate perspective, these are stakeholder issues involving obligations and responsibilities to both customers and governments. Social issues concerning environmental pollution are of concern to a variety of governmental regulatory agencies, as well as to the communities in which corporations have their operations, employees and customers.

The difficulties that have been encountered in defining corporate social responsibility, responsiveness, and/or performance have been attributed in part to the broad and inclusive meaning of the word social. The connotation of social is society, a level of analysis that is abstract, inclusive and ambiguous. The impact of a particular business or corporation on society is a different matter from the impact of business in *general* on society as a *whole*. This level of abstraction and ambiguity has led to much criticism of CSR. Friedman (1970) took advantage of this in his criticism of "those who speak eloquently about the social responsibilities of business in a free-enterprise system". Friedman chose to interpret social issues and social responsibilities to mean non-business issues and non-business responsibilities. He, like so many neoclassical economists, separated business from society, which enabled him to maintain that the "business of business is business", as well as to deny the necessity, or even the validity of the concept of CSR.

Neither business in general nor specific corporations in particular can be made responsible for dealing with all social issues. Before responsibilities can be assigned and before corporations and their managers can be held accountable for the results of their actions, it is necessary to develop a systematic method of determining what is and what is not a social issue for a corporation. Viewing social issues from the various perspectives of stakeholder groups can provide useful insights. The reason for this, being that all social issues are of concern to one or more stakeholder groups, although they may not necessarily be of concern to society as a whole.

2.5 Signalling Theory

In 1973, Spence introduced the concept of signalling with respect to education. Spence assumed education to be a signal of ability, and argued that since employers could not readily observe workers' ability, those with greater ability would obtain education in order to distinguish themselves from those less able. Signalling is a reaction to informational asymmetry in markets, that is, firms have information that stakeholders do not. Asymmetries can be reduced if the party with more information signals it to the other relevant parties. As such, signalling theory has been used in many studies to explain disclosure decisions by managers.

Bhattacharya and Ritter (1983) developed a signalling model with regards to a set of competitive firms engaged in research and development. In their model, a firm requires external capital to finance its research and development activities. By signalling to the capital market their prospects, they also inform their competitors who will, arguably, benefit from this information. The firm, therefore, faces a trade-off between reducing the value of its informational advantage and raising financing at better terms.

Verrecchia (1983) argues that a manager's decision to disclose information will be made on the basis of the effect of the disclosure or signal on the market. Verrecchia posits that there will be a "threshold level of disclosure" below which information will be withheld and above which information will be disclosed. This level, it is suggested, will be determined in part by how *non* disclosure would be interpreted by the market which is in turn affected by the market's conjecture on the manager's motivation for withholding information. In 1990, Verrecchia added to this concept by suggesting that the quality of information available to the manager may influence the threshold level. The *higher* the quality of the information, the *lower* the threshold level of disclosure.

Newman and Sansig (1993) explored the use of signalling and disclosure decisions with a scenario of three parties: the incumbent (existing market player), the stockholders and an entrant (potential competitor). Going on the assumption that the incumbent acts to maximize shareholders' wealth, they argue that in order to assist stockholder investment/consumption decisions, disclosures will be made. However, these disclosures will be imprecise or "noisy" in order to try and deter market entry. They conclude that if this analysis were expanded to include more users, i.e. government, lobby groups, the company's communication problems would be complicated even further.

Farrel and Gibbons (1990), similarly, considered how company communication is affected by the presence of different audiences, such as the capital market and a rival company. They suggest that when a company is more concerned with its relationship with the capital market than the potential entry of a rival, it will communicate truthfully, thereby informing its rival by their disclosures. If, on the other hand, the company is more concerned about preventing market entrance, it will adopt a strategy of cheap *talk* or non verifiable claims, whereby its public communications and disclosures will not be credible.

Voluntary disclosures have been argued to provide managers of higher quality firms a means with which to distinguish themselves from firms of average or lower quality. However, for managers to signal quality successfully, the signal must be credible or perceived as such. If managers attempt to falsely signal quality and are ultimately revealed, no subsequent disclosures will be seen as credible.

2.6 Conclusion

There has been a great deal of research recently into the motives of managers and companies' decision to disclose social and environmental information. When explaining why particular disclosures are made, or in describing how organisations should make particular disclosures, reference is made to a particular theoretical perspective. However, as there is no *perfect* theory for social and environmental accounting, there is much variation in the theoretical perspectives being adopted (Deegan, 2002). When efforts have been made to explain social and environmental disclosure practices, recent research has tended to rely upon the neo-pluralist approaches of legitimacy theory, and to a lesser extent, stakeholder theory, both of which have their roots in Bourgeois political economy theory. While each of these theories may provide some interesting insights into the CSR disclosure decision, their direct applicability to the current study is perhaps questionable due to inherent limitations in each of the theories respectively.

Stakeholder theory implies that managers will assess the importance of various stakeholder groups to the organisation, and may voluntarily disclose information to gain the approval of the stakeholders they deem most important. In order to predict disclosures using stakeholder theory, an assessment of the relative importance managers' place on each of the stakeholder groups would need to be made. Such an assessment is arguably, quite difficult, and is unlikely to be homogeneous across different firms or different industries. Hill and Jones (1992, p. 133) argue that "...the magnitude of an individual actor's stake is a function of the extent to which that actor's exchange relationship with the firm is supported by investments in specific assets." They define these as assets that cannot be redeployed to alternative use without loss of value. To clarify their argument, they use the example of employees. Employees with a general-purpose skill can leave the firm and be replaced with relative ease for both the employee and the firm. Employees with uniquely tailored skills, however, will have a higher stake in the firm as their loss would cause substantial costs to both themselves and the firm. It can then be argued, that different types of businesses are likely to attach different weights to their stakeholder groups.

Stakeholder theory can be viewed as an extension of the traditional agency model: instead of simply restricting the focus of analysis to the relationship between manager and shareholders, it extends this to consider the relationship between managers and all stakeholders, i.e. managers being viewed in this sense as agents of all stakeholders (Hill and Jones, 1992). This is the very aspect of stakeholder theory that has been subjected to the greatest criticism.

Sternberg (1997) criticised stakeholder theory for the following reasons:

- Stakeholder theory is incompatible with business as it automatically rules out the understanding that business is the activity of maximising long-term owner value. By the same token, maximising value-added for customers, improving benefits for employees or any aim other than "balanced stakeholder benefits" – an unworkable objective- are all ruled out by stakeholder theory.

- Stakeholder theory is incompatible with corporate governance as an organisation that is accountable to everyone is actually accountable to no one: accountability that is diffused is effectively non-existent. In requiring business managers to balance stakeholder interests, stakeholder theory demands that managers violate the prior obligations to owners that they undertook in accepting their jobs.
- The stakeholder theory of accountability is unjustified. Organisations are affected by gravity and affect the ozone layer, but they are not, and logically could not be held to account by them. That an organisation must take many factors into account, does not give them any right to hold it to account. Similarly, the fact that various groups are affected by an organisation does not give them any right to control it.
- Stakeholder theory undermines private property, agency and wealth. It denies owners the right to determine how their property will be used. It also denies the duty that agents owe to principals.
- Finally, there is also a problem with the stakeholder concept that an individual can have multiple stakes in the business as employee, consumer, shareholder and a member of the local community. It is easier to identify the information needs of a stakeholder group than those of an individual who has multiple stake holdings in the same organisation.

Organizational legitimacy theory predicts that corporations will do whatever they regard as necessary in order to preserve their image of a legitimate business with legitimate aims and methods of achieving it. Legitimacy is mostly used in the CSR literature to support the idea that social disclosures will be maintained at present levels, or increased over time, to avert legitimacy crises. However, the CSR literature also contains some references to reasons for, and incidents of, reductions in social disclosures, especially in the context of developing countries. Can nondisclosure then also have a legitimizing effect? If not, then the applicability of legitimacy theory to developing countries becomes quite limited. To date, no empirical evidence exists to either support or refute this proposition.

Signalling is a reaction to informational asymmetry in markets, that is, firms have information that stakeholders do not. Asymmetries can be reduced if the party with more information signals it to the other relevant parties, implying that market participants will not only interpret the signal correctly, but will also react and adjust accordingly. As such, signalling theory has been used in many studies to explain disclosure decisions by managers. However, signalling theory is based on several assumptions, the most important of which is the efficient market hypothesis. In 1965, Fama stated that "In an efficient market, on the average, competition among rational, profit-maximising participants will cause the full effects of new information on intrinsic values to be reflected 'instantaneously' in actual prices" (Fama, 1965: 4). While signalling theory may be an appropriate explanatory theory in developed market economies with at least semi-strong efficient capital markets, it is arguably invalid in developing or transitional economies. Due to the inherent limitations of the respective theories and the multifaceted nature of the CSR disclosure decision, it is the position of this research that no single theory alone can be used to accurately capture, convey and explain the CSR reporting phenomenon. It is therefore the intention of this research neither to focus on any one theory nor to discard any of these theories but rather carry them through the thesis with the aim of revisiting them in light of the results of the empirical study.

Chapter Three:

CSR Reporting and Reporting Media

3.1 Introduction

CSR accounting research is not a new phenomenon. Social accountability issues date back 30 years to the publication of a number of important contributions (Beams & Fertig, 1971; Churchman, 1971; Linowes, 1972; Mobley, 1970). Mathews (1997) reviewed 25 years worth of environmental accounting literature. The review breaks the literature into three time periods: 1971-1980; 1981-1990 and 1991-95. The first division, at 1980, is considered appropriate because that date has been used by some researchers as marking a major change in thinking following the Thatcher electoral victory in the UK, and also because the specialist accounting journals, such as *Accounting, Auditing and Accountability Journal (*1988); *Journal of Accounting and Public Policy* (1982); *Critical Perspectives in Accounting* (1990), which encourage research in this area were setup in the decade beginning in 1980. The second division coincides with the publication of Pearce at al. (1989) and the response by Gray (1990), which is regarded by many as the start of a new era of interest in environmental accounting matters (Mathews, 1997). Although the review provided a thorough and organised look at the literature, it falls short of identifying anything but the most evident trends.

A fundamental problem in the field of CSR research is that there are no standard universal definitions that provide a framework or model for the systematic collection, organisation, and analysis of corporate data. Put simply, CSR tends to mean different things to different people. After over three decades of research, Votaw's (1973) criticism of the term corporate social responsibility still remains valid:

> The term is a brilliant one: it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others it means socially responsible behaviour in an ethical sense; to still others, the meaning transmitted is that of "responsible for", in causal mode; many simply equate it with a charitable contribution. (Votaw, 1973: 11)

Corporate social responsibility and responsiveness are concepts that have been generated outside of business. They have been attacked for having normative connotations lacking clarity and specificity and also have the disadvantage of sounding like jargon. (Clarkson, 1995: 98) "Socially responsible to whom?, Social performance judged by whom and by what standards?": These are legitimate questions to which, for many years, business people had not received satisfactory or meaningful responses. Understandably, they resisted attempts to make them responsible for social issues that they did not perceive as corporate or business issues.

Following a predominantly stakeholder approach, the literature identifies the four major themes for CSR as:

1. Natural Environment.
2. Customers.
3. Employees.
4. Community.

Even within the specific natural environment category, endless subcategories, such as pollutants and emissions, greening initiatives and recycling and waste management may be possible. Thus, the definition of Environmental Reporting might, more often than not, be arbitrary at best.

Prior CSR disclosure research may be divided into two distinct categories:

1. Investors use of the disclosure
2. The reliability of the disclosure

In 1973, Longstreth and Rosenbloom surveyed religious organisations, universities, foundations, insurance companies, banks and mutual funds, and found that the majority of those responding took social considerations into account in the selection and retention of investments.

Buzby and Falk (1978) also found that investors used social information. They surveyed mutual fund presidents and found that a substantial number of funds considered some social items, for example, the sale of products that are potentially hazardous to the environment, in their investment decision process. In 1979, Buzby and Falk surveyed an additional group, university chief financial officers, in order to assess the demand for and importance of nine social items of information for investment purposes. The results indicated that university investors were not a strong source of demand for social responsibility information. Rockness and Williams' (1988) survey of socially responsible mutual fund managers also failed to identify a strong demand for specific social disclosures.

In their 1995 survey study, Gamble et al. found that environmental disclosures in annual reports and 10ks have significantly increased since 1989. They also found that although overall quality of environmental disclosures was low, petroleum refining, hazardous waste management and steel works provided the highest quality of both annual report and 10k environmental disclosures. Their study revealed that sources of social information varied from firm to firm, with no one social criterion used unanimously.

In their 1998 survey of Western European corporations, Adams et al., found that company size, industrial grouping and country of domicile all influence corporate social reporting patterns. They found that "super-large" companies are significantly more likely to disclose all types of corporate social information. In addition, they found that, while size and industry membership was important in all countries surveyed, the amount and nature of information disclosed varied significantly across Europe. However, they failed to shed light on the possible reasons for the variations.

In their 1995, CSR research database project, Gray, et al., identified two major issues relating to the location of environmental disclosures. The first issue concerns which documents are to define CSR and what importance is to be placed on each one. The second issue relates to where in a particular document, especially the annual report, the data reside and what importance these than have. The researchers ascertain that all forms of data reaching the public can be considered to be part of the accountability-discharge activity and, thus, not only annual reports and environmental reports but also advertising, and press releases for example, can be seen as part of CSR. Ideally, therefore, all communications by a corporation should be monitored if one is to capture all CSR by an entity. This proved to be a major practical problem since it is almost impossible to be certain that all communications have been identified.

In keeping with the majority of the literature, the annual report was used as the principal focus of reporting although procedures were adopted to capture other forms of reporting from companies whenever possible. They justified their position on the basis that the annual report not only is a statutory document produced regularly, but it also represents what is probably the most important document in terms of the organisation's constructions of its own social imagery (Gray, et al., 1995).

The second major issue of location raised by the research concerned the placement of CSR within a document. Various arguments (see Kirkman & Hope, 1992) have proposed that location is important because:

1. It is more likely to be read (Chairman's Statement).
2. It indicates the importance attached to the issue (separate section or booklets).
3. It falls within the auditors' domain (statutory section).
4. It demonstrates the high profile of the issue and /or its integration with mainstream matters of the company (Director's Report and/or Review of the year).

Despite the validity of this point, the CSR literature has yet, first, to draw persuasive conclusions from the disclosures, second, to provide any guidance on how redundancies in several sections are to be interpreted, and third, to deal with the danger that if "location" is imposed on the data, some of its richness might well be lost. For these reasons, the database project, as with other CSR research, ignored location within documents.

Most models of corporate social responsibility to date have been descriptive in nature and based on the experiences of Western countries. In their 2000 work, Quazi and O'Brien attempted to empirically test the validity of a cross-national model of corporate social responsibility in the context of two dissimilar cultures- Australia and Bangladesh. Their findings confirm that corporate social responsibility is two dimensional and universal in nature and that differing cultural and market settings in which managers operate may have little impact on the ethical perception of corporate managers.

This view contradicts that held by Lewis and Unerman (1999) who argue that ethical relativism can be used to explain differences in corporate social reporting. They contend that implicit in many studies of CSR, is an understanding of what members of society regard as positive or good and negative or bad. A key question raised by the article, and in moral philosophy in general, is whether ethical rules, which determine what is good and bad, are absolute, or vary relative to cultural differences or individual beliefs. The researchers argue that without the understanding moral philosophy gives us about what is right and wrong, managers would not know in what respects the impacts of their organisation were regarded as good or bad. Arguably, without such insights the resulting CSR disclosure would lack direction and purpose (Lewis & Unerman, 1999).

This same view was shared by Gray et al. (1995), when in an attempt to summarise some of the literature, found that the volume of CSR tends to vary both over time and between different countries, with the issues considered important in one country, or at one particular time, being regarded as less important in other countries or at other periods. Gray et al. (1995) also point to a lack of theoretical explanations in the literature for such variations.

To the extent that CSR disclosure is a response by companies to the ethical concerns and anxieties of either their key stakeholders or society in general, ethical relativism has important implications for CSR research as the moral concerns within a particular society or stakeholder group at one point in time may validly vary from those of other societies/ stakeholder groups or other times. Thus, if ethics are relative, then CSR that is appropriate for one society or stakeholder group at one point in time might not be appropriate for other societies/stakeholder groups or other times (Lewis & Unerman, 1999).

3.2 National Studies

While there is a plethora of intra as well as international CSR studies on the USA, Australia and Western European nations, very few studies are available on the CSR practices of developing countries. Mostly, these studies were conducted in the context of newly industrialised Asian countries such as Malaysia and Singapore and the African nations of

Uganda, Nigeria and South Africa. There are few detailed studies available in a South Asian context excepting the widely quoted one of Singh and Ahuja (1983), a case study on Indian CSR by Hegde *et al.* (1997) and a short study on Bangladesh by Belal (1999).

There is a general belief that accounting rules and regulations of developed countries can be replicated in developing countries to meet their reporting needs (see Gray *et al.*, 1996). Briston (1984), however, notes that financial regulations of developed countries are investor-oriented and hence, may not be appropriate for the developing countries where regulations are weak and ineffective, private investors are few, corporate culture has yet to be developed and the stock exchange is, in most cases, relatively new.

Gray and Kouhy (1993) are particularly critical of introducing Western CSR techniques into the different socio-cultural environment of developing countries as the socio-economic, political and cultural environment of a country largely influences accounting in general, and CSR in particular (Mathews, 1993; Perera and Mathews, 1990; Tsang, 1998). Gray et al. (1996) maintain the need for CSR studies is acute in developing countries.

In a study of 115 South African companies, Savage (1994) reports that approximately 50 percent of companies are making social disclosures, with human resources (89 percent) being the main theme. Typical human resource disclosures include pay, working conditions, compensation and equal opportunities. Other social disclosures include community involvement (72 percent) and environmental disclosures (63 percent).

The study by Singh and Ahuja (1983) on Indian CSR was the first ever study from the context of a developing country in general and South Asian countries in particular. Until 1997, it was the *only* study from the South Asian context that was reported in an international journal. However, in 1997 Hedge et al. made a CSR case study of an Indian company, as India is one of very few developing countries with a fairly long history of CSR. For example, the Cement Corporation of India produced a complete set of social accounts including social balance sheet and income statement as far back as fiscal year-end 1973 (Gray *et al.*, 1996).

In their 1983 research, Singh and Ahuja studied 40 annual reports of public sector companies for fiscal year 1975/76. The study covered 33 social disclosure items including social overheads, environmental control measures, charitable activities and community involvement. The study examined the extent of CSR in India and the relationship between CSR and company age, size, profitability and industrial grouping. It indicated that approximately 40 percent of the companies disclosed more than 30 percent of the total social disclosure items included in the survey. Singh and Ahuja (1983) did not study private sector practices, which are now making a significant contribution to the Indian economy. Nearly 15 years later, Hegde *et al.* (1997) provide the explanation that most Indian private companies do not make formal social disclosures, as they are not statutorily required. Given the increased emphasis on privatisation, recent attention of the global companies to the vast Indian and nearby markets and the relatively well developed stock exchanges, a study of private sector CSR would certainly provide useful insights into the CSR practices in developing countries in general and South Asian countries in particular. In addition, the study of Singh and Ahuja relates to the Indian CSR practices of 25 years ago. Thus, more recent studies are needed to shed light on the current CSR practices in South Asian countries.

Hegde *et al.* (1997) made a case study of the Steel Authority of India Limited (SAIL), which is also a public sector company. They observed that SAIL prepared a social balance sheet and income statement. In addition, it made extensive human resource disclosure. It also included a value-added statement in the annual report.

In a very short study on Bangladeshi CSR, Belal (1999) found that 90 percent of the companies studied made some environmental disclosures, 97 percent made employee disclosures and 77 percent made ethical disclosures. The study appears to be far too sketchy and incomplete, as it did not report detailed findings. At best it can be taken as a short commentary on the ongoing CSR initiatives in Bangladesh.

More recently, Imam (2000) conducted another survey of CSR practices in Bangladesh. The study reported that all companies included in the survey made some form of human resource disclosure, 25 percent community, 22.5 percent environmental and 10 percent consumer disclosures. The study concluded that the disclosure level was very poor and inadequate. One of the major limitations of this study is that it failed to locate the social disclosures in Bangladesh in its broader socio-economic context.

In a study of 22 large multinational corporations in Nigeria, Disu and Gray (1998) noted that all companies included in the survey made some mandatory disclosures such as charitable donations, employment data, pensions, employee consultation, employment of the disabled, health and safety and corporate governance. The samples also made some voluntary disclosure, predominantly in the area of employee reporting.

In another study of only four companies in Uganda, Kisenyi and Gray (1998) observed that none of the companies made any environmental disclosure, all made employee related disclosure and two gave information on customers and community involvement. They tentatively concluded that social and environmental disclosure in Uganda is scarce, low grade and of little importance (Kisenyi and Gray, 1998, p 18).

Eric Tsang, (1998) noted two major shortcomings in CSR literature: (1) domination of industrialised countries of Western Europe, the USA and Australia and (2) most studies are cross-sectional in nature. In order to overcome these shortcomings, the researcher examined CSR disclosures by Singaporean companies in three industries, namely: Banking, Food and Beverages, and Hotels, over a ten-year period from 1986 to 1995. The study covered 33 listed companies and found that 17 (52 percent) companies made social disclosures. The study observed a steady increase in social disclosure during the late 1980s and then a stable pattern since 1993.

The study conducted content analysis on the chairman's statement and the description of operations of each annual report. The study only considered three specific social responsibility areas: environment, human resources and community involvement. The unit of analysis was a sentence, which ended in a period or a question mark. According to the research, the advantage of this method is that the number of sentences can be counted very precisely. The study concluded that stage of economic development and cultural and national differences affect accounting practices in general and CSR practices in particular. While the study did fill a void in the CSR literature, limited resources restricted the scope of the study to only three industries, three specific social responsibility areas, and one form of communication medium, namely annual reports.

3.3 Environmental Reporting

The objective of providing corporate social and environmental performance data may go beyond simply enabling interested users to make economic decisions. Environmental data disclosure enables a company to demonstrate its accountability for its environmental activities. The act of disclosure may have economic consequences for the company making the disclosure: it may increase or lose sales revenue, it may invite lobbying or prosecution, it may serve to motivate the workforce or it may alarm local residents.

Unlike other aspects of CSR, environment-related disclosures (of any description) through the annual report to shareholders are a relatively recent feature of corporate financial reporting. There are several reasons for this:

(1) Environmental issues as business issues have really only achieved wide discussion since 1990;

(2) The needs of stakeholders for environmental data and the value that they place on it is an under-researched area;

(3) Environmental disclosures are not explicitly required by most statutes, national or international GAAP, consequently measurement and disclosure techniques are currently only in the discussion phase by the accounting profession.

(4) Environmental issues – and particularly the benefits that might accrue from more environmentally sensitive methods of operation – seldom appear in the curricula of either prospective accountants or prospective business managers (Adams, 1998).

The quantitative/qualitative focus of current environment related financial reporting practices are probably influenced significantly by the traditional requirements and positioning of the financial community itself. Non-financial environmental information may not, currently, be useful to the financial community because the data is perceived to lack the primary characteristics of comparability and consistency and is also normally unverified. A major concern is to ensure that such data obtains a higher usefulness rating in the future.

A good summary of the international situation with regard to environmental reporting and the disclosure of environmental data in company annual reports and stand alone environmental reports is presented in KPMG's International Surveys of Environmental Reporting (1993,1996, 1999). With regard to stand-alone environmental reports it is worth remembering that, pre-1990 such stand-alone reports did not exist. The 1996 KPMG finding that 23 % of companies surveyed (up from 13 % in 1993) produce corporate environmental reports, in addition to their annual report to shareholders, is quite significant in that it represents a fairly sizeable revolution in corporate accountability.

Environmental issues/performance are reported to stakeholders through an ever-expanding variety of different media: the annual report to shareholders, within both the audited and unaudited sections; stand alone environmental performance reports at the corporate, site or summary corporate levels; via employee newsletters; press releases, the internet, computer disc, or via disclosures made directly to environmental regulators which remain on the public record.

Figure 3.1 presents the findings of the 1996 KPMG survey. The survey covered the 100 leading companies in terms of market capitalisation in each of 12 countries (USA, Canada, Australia, New Zealand, the United Kingdom, the Netherlands, Belgium, Switzerland, Sweden, Denmark, Norway and Finland). The results are drawn from the 804 annual reports received (out of a possible 1150).

Figure 3.1: KPMG Survey of International Trends in Environmental Reporting
▪ **Annual Reports** Overall, 556 (69%) of companies surveyed mentioned the environment in their annual reports – a dramatic increase over the 37% found in the previous (1993) survey.
▪ **Country Differences** 95% of Norwegian companies mention the environment in their financial statements – [US

= 86%]. New Zealand [39%] is the only country in the survey where the figure falls below 50%.
▪ **Reporting on Environmental Costs and Environmental Policies** 18% of companies include environmental costs in the financial statements or the notes to the financial statements, and/or set out an accounting policy on the environment. In the USA, 70% of companies surveyed include financial information on the environment – disclosures driven by the requirements of the Securities and Exchange Commission for disclosures of environmental contingencies and liabilities. KPMG suggest that *"for the most part Europe is far behind North America ......"* however this may change when the initiatives currently underway regarding accounting requirements for environmental issues result in legal requirements and/or accounting guidelines.
▪ **Position of Environmental Disclosures in Annual Reports** 31% of companies mention the environment in the equivalent to the director's report or management's discussion and analysis.
▪ **References to Environmental Report in Annual Report** KPMG note the surprising finding that, of the 556 companies mentioning the environment in their annual report only 85 referred to separate environmental publication. This means that less than half of the 192 companies that submitted an environmental report for the purposes of the survey mentioned the fact that they had issued such a report in their annual report to shareholders.
▪ **Environmental Reports** 192 (23%) of the companies surveyed produce some kind of environmental report (compared with 13% in the 1993 survey) – reasonably enough, and reflecting actual practice, KPMG include in their definition of environmental report a separate section of 3 pages or more dealing with environmental issues within the annual report itself).
▪ **Industry Environmental Reporting** More than 70% of the companies in the chemical industry publish environmental reports – forestry, paper, pulp, and oil and gases are the next best represented sectors.

It is also worth nothing at this point, however, that such environmental reporting in 1996 is largely restricted to multinational companies and developed countries. Extending the size range of companies when looking for environmental disclosures can produce dramatically different results. Figure 3.2 depicts the results of the 1996 annual survey by the UK based *Company Reporting*.

Figure 3.2: Environmental Reporting by Company Size		
KPMG 1996 Survey	69% of top 100 companies surveyed in 12 countries report on environmental issues in the annual report.	Up from 37% in 1993.
"Company Reporting" (May 1996) – based on 1995 UK survey.	29% of 682 UK companies surveyed report on environmental issues within the annual report.	Down from 32% reported in the CR 1994 survey (although the CR survey does not necessarily review the same sample of companies each year).

The KPMG survey provides reassurance that large companies world-wide have now adopted the reporting of environmental issues either through the annual report to shareholders or through a separate free-standing environmental report as a part of their normal corporate governance/corporate reporting mechanisms. However, environmental disclosure data is not the subject of mandatory disclosure requirements anywhere in the world except for a number of restricted situations (e.g. USA – TRI disclosure requirements; Denmark – mandatory environmental reporting for particular industry groups; Thailand – Bangkok Stock Exchange listing requirements). Elsewhere, environmental disclosures in annual reports vary widely in scope and quality, as do stand alone environmental reports: there is little consistency and not much scope for inter-company comparison or benchmarking. If it can be plausibly argued that improving environmental performance can improve the bottom line, then it is reasonable to go on and ask what sort of environmental performance information companies should disclose and how this information is or could be transmitted to relevant financial stakeholders. The minimum present disclosure requirements are summarized and reviewed in the UN paper *Accounting and Reporting for Environmental Costs and Liabilities within the Existing Financial Reporting Framework* (UN 1997).

The review of non-accounting based literature presented below, however, suggests that many financial stakeholders regard the conventional financial accounting and reporting framework an inadequate or incomplete base on which to make decisions given that many issues relating to environmental risk and corporate environmental performance and strategy are wholly ignored by recognized GAAP frameworks. Amongst those who have exhibited an interest in environmental data for use in financial decision making are:

- The UK BIE/Extel survey (1994).
- The IRRC focus group research (1995).
- The UNEP/Sustain Ability work (1996).
- The EMAS study (1996).

A summary of the outcomes in regards to financial stakeholder attitude to, need for or use of environmental data is provided in figure 3.3.

Figure 3.3: Surveys of Financial Stakeholder Needs

Survey	Finding: financial stakeholders require
1. BiE/Extel (UK 1994) **"City Analysts and the Environment"**	Factors of importance when assessing a company include: ▪ Quality of management (87% Very). ▪ Bottom line data (76% Very). ▪ Environmental policy (4% Very). Generally these UK respondents did not feel that the absence of standardized reporting practices, the scientific uncertainty of environmental problems or the lack of availability of established environmental performance indicators were a barrier to their assessment of companies
2. IRRC (US 1995) **"Environmental Reporting and Third Party Statements"**	Financial stakeholders focus groups emphasized their need for: ▪ Environmental liability data (backed up by compliance data). ▪ A balanced tone of reporting. ▪ Evidence of application of US standards to international operations. ▪ Quantitative trends ▪ Details of organizational commitment and strategy on the environment. ▪ More meaningful verification of environmental data/reports. ▪ Increased standardization in the reporting of environmental data.

3. UNEP/Sustain Ability (Global 1996) **"Engaging Stakeholders"** (Vol 2 P27).	Companies believe financial stakeholders want: ▪ To gain confidence in the company's ability to manage environmental issues and liabilities. ▪ Data to assist in the pricing of capital. ▪ Data to assist in the assessment of environmental risks and liabilities. The financial stakeholder groups want environmental data: ▪ To help select sound investments. ▪ To benchmark and rank corporate environmental performance. ▪ To help screen investments. "The new trend in shareholder information needs is in relation to the economic or a financial consequence of environmental performance-there is a growing pressure to supply more investor- and insurer-related information and a growing interest in the correlation between environmental spending and shareholder value." (P29).
4. EMAS/Imperial (Europe 1996) **"The Environmental Statement".**	EMAS reports currently lack sufficient data on overall company environmental management and performance-also on level of environmental capital expenditures and financial. Impact (i.e. overall consequences of the environmental effects and performance on the company as a whole).

The evidence of these surveys is mixed. UK financial analysts appear not to be particularly concerned about environment issues such as costs or performance. In the USA, financial stakeholder focus groups respond to direct questions about their performances in a logical and rational way; if they are to have the information, they'd like it meaningfully audited, comparable, etc.

The EU Eco-Management and Audit Scheme (EMAS) has provided an incentive to become involved in environmental reporting but the overall take-up rate differs dramatically between EU member states. With over 800 registrations as at end April 1997, there were only 23 UK companies registered as opposed to some 350 German companies as at the end of 1996 and little research seems to have been done into the motivations behind EMAS registrations.

"Engaging Stakeholders", a 1996 UNEP work deals with specialist investors whose focus is on environmentally / socially sensitive companies. This last group of investors clearly wants not just as much data as possible but data of a relatively sophisticated nature; data which links financial inputs with environmental outcomes. Environmental Statements as required by EMAS are at a relatively early stage, the first reports were only issued in 1995, but early research carried out on behalf of the EC Commission seems to point to some information shortcomings in the site-based environmental reporting regime.

In addition, a number of financial sector user groups have begun to formalise their requirements for environmentally related disclosures. This is an important development because, hitherto, evidence of stakeholders' requirements was either anecdotal, assumed or survey based. At least three major financial sector stakeholder groups have specified their demands to date:

(i) The European Federation of Financial Analysts Societies (EFFAS-1996);

(ii) A group of five major Swiss banks who have issued a consultation paper dealing with environmental reporting disclosure (1997); and

(iii) The UK Governments Advisory Committee on Business and the Environment.

3.3.2 European Federation of Financial Analysts Societies

The European Federation of Financial Analysts Societies (EFFAS) has published two significant reports (1994, 1996) dealing with the informational needs of financial analysts vis-à-vis environmental issues. In contrast to the rather hazy views expressed by analysts in the BiE/Extel survey reported in the previous section, EFFAS is extremely clear at articulating its demands for development of improved techniques for linking environmental and financial issues. The EFFAS recommendations fall broadly into two sections:

(1) Recommendations for improved financial disclosures in the financial statements and the annual report to shareholders summarised below in table 3.4.

(2) Recommendations for developing "eco-efficiency" indicators, through which a company's progress towards sustainable modes of operation may be judged.

Whilst there may be some overlap between the various demands for more data, the EFFAS "wish list" is at least a tightly argued and, for the most part, deliverable list of questions. As a result it could form a central part of any proposed expansion of the conventional accounting framework.

Figure 3.4: EFFAS catalogue of requirements for consolidated financial and environmental accounts

Section	Requirement
Notes to the a/cs	1. Comments on the scope and methods of consolidation of the annual environmental report – what is not in the consolidated figures?
	2. Clear statements on how the different items are treated (expensed or capitalized) and on a consistent application annual report and annual environmental report).
	3. Last historical data and targets.
P & L Account	1. Energy costs.
	2. Waste costs disposal and treatment.
	3. Costs of environmental protection and safety.
	4. Costs of remediation, abatement clean-up
	5. Cost of environmental impact reductions.
	6. Other costs, communication staff training.
	7. Depreciation (presumably of environmental capital assets).
	8. Environmental savings (undefined).
Balance Sheet	1. Provisions for environmental liabilities.
	2. Provisions to fully comply with environmental laws and regulations.
	3. Contingent liabilities (off-balance sheets).
Cash Flow	1. Environmental capital expenditures.
Other	1. Does the company have an environmental policy and targets?
	2. Content of the environmental policy?
	3. Does the company publish an annual report?
	4. Does the company have a system to collect environmental data on a local and group level?
	5. Does the company discuss the main environmental problems? What does the company regard as its main environmental challenges?
	6. Does the company comply worldwide with existing laws and regulations, and if not, what are the costs and expenditures to reach full compliance?
	7. Has the company signed the ICC-Charter for Sustainable Development?
	8. Does the company have special insurance cover for environmental risks?
	9. Are legal sanctions pending?
	10. Do environmental audits exist?

Source: *"Eco-Efficiency and Financial Analysis – the Financial Analyst Views"*
EFFAS Commission on Accounting (1996)

In a well-organised accounting system, many of the financial disclosures sought by EFFAS could be recorded relatively easily, as is the case with waste and energy costs, for example. The main difficulties arise in connection with capital expenditures where it may not be possible to make consistent judgements as to how much capital expenditure constitutes environmental capital expenditure and how much is "ordinary" capital expenditure. It follows that a depreciation disclosure related to environmental capital expenditure may also be difficult to estimate with any degree of certainty.

Environmental savings may be difficult to estimate and may not always be consistent from company to company. Environmental benefits other than savings, are not addressed in the EFFAS wish-list. It is not clear what costs of environmental impact reductions actually means, but it is quite likely that it may be difficult enough to agree on the physical nature of the environmental impact reductions themselves, even before progressing to estimate the costs to the reporting of achieving those reductions.

3.3.3 The Swiss Banking Initiative

In mid-1997, five Swiss banking institutions issued a draft discussion paper entitled *Swiss Bankers' Association's (SBA) Environmental Reporting Requirements* and subtitled *Integrating Company – specific Environmental Information into Investment Business*. The banks identify two ways in which environmental information is useful to them:

(i) It enables them to identify risks which arise from a company's business and to interpret those risks in their political context;

(ii) An increasing number of investors also ask for environmental information on the companies in which they invest. Banks can only meet this demand if the companies provide them with this sort of information themselves.

A standardised set of figures, say the Swiss bankers, makes assessing a company's environmental performance much easier. Based on a four-industry sector review (chemicals/pharmaceuticals, electronics, food production, and engineering) the SBA sets out disclosure recommendations under three broad headings (see figure 4.5):

1. Key environmental figures.
2. Relevant financial figures.
3. Relevant management information.

Figure 3.5: Environmental Disclosures Recommended by the Swiss Bankers Association

Key environmental figures	Relevant financial figures	Relevant management information
Energy use	Energy costs.	Strategy what are the three most important environmental issues affecting the company's bottom line in the next 5 – 10 years?
CO_2 and equivalents	Raw material costs (renewable and non-renewable).	EMS (ISO 14001/EMAS, BS 7750 certification or company's own similar system) with special focus on risk management and legal compliance.
CFC-11 and equivalents	Waste disposals	Communication: knowledge of most important stakeholders' type of communication on environmental matters?
NOx emissions	Depreciation on environmental investments.	Description of measures taken to improve eco-efficiency of processes and products.
SO_2 emissions	Depreciation or provisions for environmental liabilities.	
VOC emissions	Quality assurance costs.	
Waste (including special waste).	Environmental investments.	
Additional sector-specific data.	Environmentally motivated provisions.	

It is clear that the environmental information requirements suggested in the SBA draft are very similar in content to the disclosure requirements suggested by the European Federation of Financial Analysts. The pro-active demands of the SBA and EFFAS are in stark contrast to the almost disinterested views expressed by UK financial analysts in the 1996 BiE/Extel survey. The demand by the bankers and the analysts for hard environmental data, not just for financial data and soft management information, suggests a growing sophistication on the part of some financial sector users of corporate data.

3.3.4 The Best Practice Recommendations of the UK Governments' Advisory Committee on Business and the Environment – ACBE (1997)

The UK government established the Advisory Committee on Business and the Environment (ACBE) in the wake of the Rio Summit. Representatives from the accounting, banking, insurance and investment industries authored the 1997 report from ACBE entitled "Environmental Reporting: An Approach to Good Practice". The objective of the paper was to propose an approach to good practice for businesses to follow in reporting on their environmental performance to financial audiences. Critics of ACBE argued that there was any number of environmental reporting guides or codes of conduct available, i.e. PERI, UNEP and the UK CBI, making another environmental reporting code unnecessary for anything other than a publicity tool.

The aim behind the ACBE Code was, as stated above, to address financial audiences. One of the major shortcomings of previous environmental reporting codes was that the financial audience was most often overlooked. The new ACBE Code re-iterates the environment related disclosures commonly captured by international GAAP and, in addition, recommends the disclosure of the items shown in table 3.6.

Whilst not going quite so far as some of the EFFAS and SBA recommendations, the proposed ACBE Code does represent the first UK attempt to step beyond the sometimes claustrophobic confines of the conventional financial reporting regime. The Code goes on to recommend the publication of a stand alone environmental report, as a complement to, and not as a substitute for, the inclusion of environmental information in the annual report to shareholders.

Figure 3.6: ACBE Recommendations on Discretionary Environmental Disclosures	
Discretionary financial data	**Discretionary non-financial data**
▪ The amount of environmental expenditure charged to the profit and loss account.	▪ The policy that has been adopted by the enterprise in respect of environmental protection issues and managing environmental risks.
▪ The amount of environmental expenditure capitalized to the extent that it can be clearly differentiated from other capital expenditure.	▪ The extent to which environmental protection measures, arising from change in future legal requirements that have already been enacted or substantially enacted into laws are in the process of implementation.
▪ The amount of costs incurred as a result of fines and penalties for non-compliance with environmental regulations, and compensation to third parties, where material.	▪ Reference to other quantitative or qualitative environmental information provided in a separate environmental report.
▪ Related accounting policies and comparative data.	▪ Descriptive and quantitative details of the environmental risks faced, environmental expenses incurred, and environmental initiatives undertaken (for listed companies – in the Operating and Financial Review/OFR).
▪ Where environmental issues are relevant to a complete understanding of the financial position and performance of the reporting entity, a description of the issues.	▪ Whether or not a formal environmental management system is in operation (listed companies – OFR).
	▪ Compliance with environmental requirements (listed companies – OFR).

Much of the material contained in the UK ACBE recommendations is common to the guidance issued by the EU Accounting Advisory Forum in early 1996. The Forum has attempted to explore the conventional framework of accounting and financial reporting as contained in the EC 4th Company Law Directive (which nowhere mentions environmental issues explicitly) and identify those areas where environmental concerns are relevant and should be reported. That guidance, like the later guidance from ACBE in the UK, has no mandatory force.

3.4 Annual Reports

Annual reports are regarded as important documents in CSR due to the high credibility they lend to information reported within them, their use by a number of stakeholders as the sole source of certain information, and their widespread distribution (Unerman, 2000) The justifications given for the exclusive use of annual reports in CSR content analysis studies encompass these factors. Adams and Harte (1998) sum up these justifications when they state:

> Our acceptance of the social importance of the corporate annual report stresses its potential (rather than fact) to be influential. Corporate annual reports can therefore be of interest as much for what they do not report, as for their actual content. This focus on the corporate annual report is also consistent with previous social disclosure studies, since the corporate annual report is the main form of corporate communication and, particularly in the case of quoted companies, is made widely available.

However, other arguments for focusing on the annual report, such as that of Neimark (1992), can also be used in support of all documents produced as part of the regular reporting cycle of organisations:

> In preparing the annual report, a company's management makes choices about the issues and social relationships that they consider sufficiently important or problematic to address publicly. The annual report presents the world of corporate concerns in microcosm; it is a repository that is both comprehensive and compact. Moreover, because annual reports are regularly produced, they offer a snapshot of the management's mindset in each period; before they have had too much time to reflect on or fully digest the events they are describing and/or trying to influence... the preparers of the annual report do not have the benefit of hindsight nor an extended period of reflection, and are thus caught up in moods and passions of their time.

A final relevant argument given in some CSR studies for the exclusive use of annual reports is that it is considered virtually impossible to identify all corporate communications on social matters over a long period of time, and it is, therefore, not possible to be sure how complete non-annual report data are, and therefore how consistent the content analysis results will be (Gray et al, 1995a). The contrary point of view can be found in Roberts (1991); Harte and Owen (1991); Simmons and Neu (1996); Buhr and Freedman (1996) and Zeghal and Ahmed (1990), among others, who contend that this exclusive focus on annual reports may result in a somewhat incomplete picture of disclosure practices.

3.5 Internet Financial Reporting

Internet Financial Reporting (IFR) is the distribution of corporate financial and performance information using Internet technologies such as the World Wide Web (IASC, 1999; Trites, 1999; Ashbaugh et al, 1999; FASB 2000). The FASB (2000) identifies two primary dimensions of IFR: *presentation* and *content*. IFR supports dynamic forms of presentation that are not available in the paper paradigm, such as direct user interaction with corporate databases and multimedia sound and video. In terms of content, IFR can include all paper-based content (e.g. annual reports, press releases, etc.) as well as additional content (e.g. live and recorded analyst meetings, annual general meetings, etc.). One recent IFR development is XBRL (eXtensible Business Reporting Language), which is an XML-based specification for efficient automated retrieval of financial information (see www.xbrl.org; Debreceny and Gray, 2001; Debreceny et al, 2002)

Accounting does not stand isolated from the outreach of the World Wide Web and use of electronic commerce. The Securities and Exchange Commission (SEC) in the United States, for example, now requires companies online to submit all information such as quarterly and annual reports electronically. This information is then posted directly on a Web server (SEC, 1997). Accounting standards setters in other parts of the world, such as Australia, the United

Kingdom and Europe have indicated an interest in following the SEC directives emphasising use of electronic medium rather than print (Schneider and Bowen, 1997; Baldwin and Williams, 1998).

Internet disclosure is of importance to securities regulators, accounting standards setters and to the broader financial community. The need for standardisation and rationalisation of IFR is on the international accounting agenda (see www.xbrl.org; IASC, 1999). Research is needed to understand this new phenomenon of reporting such that effective and efficient standards are put in place.

Despite various companies having established Web Sites through which they are disseminating accounting information, empirical investigations examining the influence of this medium on disclosure practices are still very much in its infancy. International comparison studies of accounting disclosure practices via this medium are almost nonexistent. Corporate social and environmental disclosures are types of disclosures considered by some proponents to be best suited for release via alternative mass communication mechanisms rather than through annual reports (Zeghal and Ahmed, 1990; William and Pei, 1999).

3.5.2 Background of IFR

IASC (1999), Ashbough et al. (1999), Trites (1999) and FASB (2000) provide frameworks to illustrate the dimensions of IFR. IASC (1999) divides IFR into three stages. In the first stage, corporations use the Internet solely as another distribution channel for their existing printed financial reports. In the second stage, corporations move to disclose their information in a form with which web browsers and search engines can easily interact. Finally, in the third stage, corporations provide not only the standard information that could be expected in a standard report, but they also provide enhanced or expanded information that could not cost effectively or even possibly be produced in a print format. They can also provide interactive tools with which information analysis is possible.

Ashbough, et al (1999) define firms as engaging in IFR when they provide in their Web Sites either (1) a comprehensive set of financial statements (including footnotes and auditor's report), (2) a link to their annual report elsewhere on the Internet, or (3) a link to the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.

Trites (1999) identified the impact of electronic on-line reporting on the content, timing, and format of financial information. An important feature of IFR, he emphasised, was the absence of boundaries. For example, he noted that the use of hyperlinks on financial reporting Web pages could blur the boundaries between financial information, which is prepared to specific standards and audited, and other corporate information, which were neither prepared to specific standards nor audited. Hodge (2001) supported this claim by providing empirical evidence of a blurring effect by showing that hyper linking of firm's audited financial statements to other corporate data leads investors to misinterpret unaudited information as being audited.

FASB (2000) described IFR in terms of content and presentation. They noted that IFR content is comprised of a variety of corporate information. Such corporate data includes partial or complete versions of the annual report, performance information not included in the annual report, as well as material such as press releases, that is available from other sources. Presentation essentially ranged from the equivalent of the print format of the annual report, primarily using HTML or Adobe Acrobat technologies, to enhancements not available in the paper paradigm such as hyperlinks, animated graphics, interactivity, downloadable spreadsheets, etc.

3.5.3 Descriptive Studies on IFR

One of the earliest descriptive studies on IFR was conducted by Petravick and Gillet (1996). They reported that 69 % of the Fortune 150 companies had a Web site and 81% of these companies with a home page made some sort of financial information available. In a later study, Petravick and Gillet (1998) examined how quickly companies posted earnings releases on their Web sites. The sample consisted of 125 Fortune 500 companies and 79.2 % (99 of 125) of these companies made the releases available through their Web sites on the same day as the announcement. This implies that companies regard the Internet as an important medium to disseminate financial information.

Gray and Debreceny (1997) found that 68 % (34) of the Fortune 50 companies had Web-based annual reports, 98 % had a Web site and 36% (18) disclosed auditor reports on the Web. Ettridge et al. (2001) compared the disclosure levels of US companies in 17 industries. The sample includes 490 US companies, 82% of which had a Web site. The most commonly disclosed accounting and financial data items were quarterly reports (54%) and news releases (80% of all sites). The comparison of disclosure levels in different industries revealed that larger, more established firms tended to provide more information than smaller, emerging technology firms.

Lymer (1997) surveyed the top 50 companies on the London Stock Exchange and found that 92% (46 companies) had a Web server and 52% disseminated accounts or reports on their home page. Furthermore, the study stated that companies in the Banks, Financial services and Insurance sector provided only limited financial information when compared with the Chemicals and Pharmaceuticals sector.

Lymer and Tallberg (1997) analyzed 72 companies listed on the Helsinki Stock Exchange and 90.2% of them had Web sites. However, they remarked that the companies surveyed, in the UK as well as in Finland, did not realize the potential for improving their Web sites and made suggestions for how companies could raise the quality of their home pages.

One study, which compared the state of Web reporting over time, was carried out by Hussey et al (1999). They reported that the number of FTSE 100 companies that provided financial information on their Web site increased from 54 to 63 between August 1997 and March 1998. This indicates a rapid growth in the use of the Internet for the disclosure of financial information. The study also tried to suggest possibilities to increase the reliability of information provided on the Web.

The state of Web reporting in Spain was described in a study by Gowthorpe and Amat (1999) in July 1998. Of the 379 companies listed on the Madrid Stock Exchange, 16% (61 companies) had an accessible Web site and of these, only 34 (55.7%) provided some form of financial information on their home page. A similar study by Brennan and Kelly (2000) examined Irish listed companies and found that only 66 (67%) had a Web site and of these, 53 (84%) contained investor relations' material. When compared with the results of studies in other countries, it can be said that there are significant differences in the use of the Internet for financial disclosure across countries.

Professional accounting bodies are also concerned with the topic of corporate online reporting. The Canadian Institute of Chartered Accountants (CICA) commissioned a research study to obtain an overview of the extent to which the Web was used for financial reporting in North America. This study was carried out by Trites (1999) who surveyed 370 companies randomly chosen from the 10,000 companies listed at the New York Stock Exchange, the NASDAQ and the Toronto Stock Exchange. It was reported that 69% of these companies had a home page and 35% of them included some form of financial information on their Web site. The study also discussed the implications of electronic online reporting for accounting standards. In particular, the problem of boundaries between audited and non-audited information was addressed.

Another study by a standard setting body was published by the US Financial Accounting Standards Board (FASB, 2000). The report contains a descriptive study which was carried out in one day, on the 30th of January 1999. A comprehensive list of 325 attributes was developed to evaluate the Web sites of the top 100 companies of the Fortune 500. The following results were reported: 99% of the companies had a Web site, 93% disseminated some form of investor relations or financial information on their Web site and 74% disclosed full versions of annual accounts. When compared with the results of former studies about US companies, it can be observed that there has been a high and increasing use of the World Wide Web for presenting financial data.

Other studies have been less country specific. Flynn and Gowthorpe (1997) examined the 100 largest companies in the world listed in the Fortune Global 500. They described the financial information provision on the Web in the context of a theory of company classification that divided the companies in monistic (oriented principally towards shareholders), pluralistic (oriented to a broader range of stakeholders) and dualistic (investor and lender-oriented) corporations. Significant differences in the nature of voluntary disclosures on the Web were found by the corporations in the different groups with monistic and pluralistic companies disseminating the kind of information that would be expected by their stakeholder orientation.

A study by Deller et al (1999) was concerned with investor relations' information displayed on the Internet. The sample comprised the top 100 companies in the USA, the UK and Germany (S&P, FTSE and DAX 100) and the survey was performed in January 1998. The results indicated that US companies offer better investor relations information via the Internet than their counterparts in the UK and Germany. One example illustrating these findings: 95% of the US corporations had a home page, compared with 85 % of the UK companies and only 76% of the German corporations.

The International Accounting Standards Committee commissioned a research study that was performed by Lymer et al. (1999). This report includes an empirical study that examined a very large sample of 660 companies from 22 different countries and included the 30 largest corporations listed in the Dow Jones Global Index for each country. It was found that 86% of the examined companies had a Web site. A penetration rate of 100% was reached in Germany, Sweden, Canada and the USA and a rate of 53% was reported for Chile. A total of 410 (62%) of these companies provided some form of financial reporting on their Web site. It can be concluded that a significant number of companies in all countries used the Internet to communicate financial information to their stakeholders.

3.5.4 Explanatory Studies on IFR

The studies described previously provided mainly an overview of the current use of the Internet for online reporting; they did not provide reasons for the differences in the quality and quantity of information presented on the World Wide Web. There is a second category of research that tries to relate certain independent variables, such as company size or country, to the level of voluntary disclosure on the Internet.

Ashbaugh et al (1999) used a sample of 290 firms identified by the Association for Investment Management and Research (AIMR) in its 1994/95 and 1995/96 reports "An Annual Review of Corporate Reporting Practices". It was found that 87% of the companies had a Web site. The study tested 4 independent variables: company size, profitability, the percentage of equity shares held by individual investors and the AIMR assessment of the traditional reporting practices of the firms. A regression analysis revealed that only firm size had significant explanatory power to predict whether firms engage in Internet financial reporting. They also found variations across industries; an analysis showed that 100% of manufacturing firms had a Web site but only 73% of mining and agriculture firms had one.

Another study by Craven and Marston (1999) examined 206 large UK companies which represented 84% of the market value of the Financial Times All Share Index. It was reported that 74 % of these companies had a Web site in July 1998. The researchers hypothesized that there was a positive and significant relation between company size and financial disclosure on the World Wide Web. Furthermore, it was hypothesized that the industry sector would be an explanatory variable for the level of financial disclosure on the Internet. Only the size hypothesis was supported by the results of statistical tests of significance.

Pirchegger and Wagenhofer (1999) examined a sample of 32 Austrian companies listed in the Vienna Stock Exchange at two points of time (end of December 1997 and 1998) and the results were compared with those of the German DAX 30 listed companies. A disclosure score was developed which aggregated a list of criteria. Similar to Craven and Marston (1999), they hypothesized that company size was related to the level of financial disclosure on the Web. Additionally, it was assumed that the score of a company's Web site would rise as the percentage of free float of the shares of a company increased. Both hypotheses were supported for the Austrian sample of companies but the two relations were not supported for the German sample.

Ettredge et al. (2002) examined whether there was a relationship between the extent of Web site disclosure and firm specific determinants. A sample of 220 US companies, of which 193 had a Web site, was analyzed in late 1997 to early 1998. It was found that the Web site disclosure level was positively related to firm size, raising equity capital and negatively related to the correlation between earnings and returns. Firm performance appeared not to be associated with the amount of information disclosed at company Web sites.

The study by Debreceny et al. (2002) goes beyond the analysis of firm specific determinants for Internet financial reporting by surveying 660 companies in 22 countries. The results revealed that firm specific characteristics such as firm size and listing on US stock exchanges as well as environmental variables were good predictors for the nature and quantity of information disclosed on company Web sites. The overall financial reporting disclosure environment appeared to be a strongly significant explanatory variable.

Another explanatory study was carried out by Brennan and Hourigan (2000) who examined a sample of 109 Irish companies in 1998. The results indicate that larger firms were significantly more likely to have a Web site, while leverage and demand for corporate information (as measured by the number of shareholders of a company) were not significant explanatory variables. It also appeared that companies in the services and financial industries were more likely to have a Web site.

This review of research on Web reporting shows that the use of the Internet as an instrument for the disclosure of financial information has been increasing although the results vary across countries. It can also be concluded that certain company specific factors, such as firm size, appear to be positively related to the level of online reporting of a company.

3.5.5 Contrast between World Wide Web and Annual Reports

Numerous commentators have stated that the strength of the World Wide Web interacting in everyday life is inevitable. Dix et al. (1998) state, for example, that the advent of the World Wide Web is like a 40m high tidal wave that inevitably cannot be stopped. As an alternative mechanism for disseminating accounting information, the World Wide Web can offer stakeholders a number of advantages presently unavailable in print media. For instance, the Web provides anyone connected to the network with a powerful tool for both accessing and providing information vastly superior in many ways, namely expedience, than alternative means such as the print media. Table 3.7 briefly highlights the main differences between Web Sites and traditional printed Annual Reports.

Table 3.7: Comparison between Annual Reports and Web Sites

Characteristic	Annual Reports	Web Sites
Nature of stakeholder	Active	Active
Two-way communication	No	Yes
Speed of communication	Moderate	Instantaneous
Level of stakeholder interactivity	Moderate	Very High
Stakeholder control over content received	To some extent	Yes
Stakeholder control over amount of info	Yes	Yes
Ability to establish one-to-one relationships	No	Yes
Ability to personalize message received	To some extent	Yes
Time restrictions on accessing message	None, once received	None
Space availability	Limited by page size	Unlimited
Graphic content	Yes: static	Yes: interactive
Audio content	No	Yes
Mobility to more suitable location	No	Yes

Adapted from Williams and Pei, (1999)

Cost of disseminating information via the Web is another important characteristic that firms may find advantageous over print media (Gallant, 1997; Williams and Pei, 1999). If a firm wishes to print, publish and distribute a large document to a large stakeholder base, for example, a 40 page report to 50,000 people, then cost is likely to be a major consideration. This problem is exacerbated if the geographical dispersion of stakeholders is great. In contrast, a firm can mount the same document onto a Web Site and then distribute an email to stakeholders telling them where to access and download the information. Firms no longer need to bear any realised costs of printing and postage, or the unrealised costs of the details not being timely as a result of slow printing and delivery (Zeff and Aronson, 1997; Williams and Pei, 1999).

Space allocation is another characteristic that provides Web Sites with an advantage over annual reports. To a large degree, the size of the paper and length of the report are restrictive (Hoffman and Novak, 1996). It is acknowledged that firms could if so desired prepare annual reports using any size paper and length possible. Pragmatically, however, due to costs of materials, printing and postage, combined with a potential fear that stakeholders receiving egregious size reports may react negatively, management must conceivably apply some degree of limitation (Williams and Pei, 1999). Due to technological advances and development of new computer languages, disk storage space required for digital data and the hardware needed has decreased dramatically during the past decade. Furthermore, additional computer storage devices can be added at relatively low costs, thus increasing the ability of a company to expand the amount of information it wishes to present on a Web Site (Dix et al, 1998).

Interactivity is also a very real advantage Web Sites have over annual reports. When a stakeholder is presented with an annual report, he/ she must receive and interpret the message contained within it without the opportunity for discussion with the provider. By contrast, the majority of Web Sites have 'Frequently Asked Questions' pages, email facilities, and other communication devices that enable the stakeholder to request, query and impart with the provider immediately upon receiving the information. This ability to communicate with companies immediately enables a closer and more personal relationship between the stockholder and the entity in question (Williams and Pei, 1999).

A final important advantage of the World Wide Web over traditional print media, noted in the literature, with international implications, is its potential to promote harmonisation in disclosure practices (Williams and Pei, 1999). The World Wide Web has the ability to deliver information to a wider spectrum of stakeholders across a broader locality within the same time frame and at a lower cost (Keeler, 1995; Liu and Hodonos, 1996, Williams and Pei, 1999). Companies using print media may perceive that the cost of disseminating accounting information, on a global scale through this vehicle, outweighs the benefits. In contrast, the lower costs of dissemination via the World Wide Web may alter management's perceptions on this issue (Zeff and Aronson, 1997; Chan, 1998; Williams and Pei, 1999). If the World Wide Web acts as a more efficient mechanism for disseminating accounting information across a wider global audience and management perceives this to be so, this may then provide the necessary incentive for firms to make more uniform disclosures to meet global, rather than national stakeholder needs.

3.5.6 CSR Disclosures on Web Sites vs. Annual Reports

From the above analysis, it is argued that annual reports and the World Wide Web, as medium for disseminating information, do differ. It was further implied that organisations might utilise the different medium accordingly. CSR disclosures, it has been argued (Preston, 1981; Parker, 1982; Zeghal and Ahmed, 1990; Gray et al, 1995a; Mathews, 1997; Williams and Pei, 1999; Ettredge et al, 2002) are types of disclosures that organisations may present differently depending on the medium being used. Consideration of this type of disclosure is, therefore, highly relevant in the context of this study. That is, if companies consider Web Sites to be a different mechanism for disseminating accounting information relative to annual reports, then it is likely that such differences will be noted in relation to corporate social disclosures.

3.6 Summary

Theoretical sensitivity, as explained in chapter one, is an important aspect of the Strauss and Corbin (1998; 1990) grounded theory methodological approach. Strauss and Corbin (1998;

1990) considered the literature as one of the major sources to enhance a researcher's sensitivity as they suggested that when a researcher had some familiarity with the existing literature, s/he would gain "a rich background of information which 'sensitises' you to what is going on with the phenomenon you are studying" (Strauss and Corbin, 1990, p42). The literature enhances the researcher's sensitivity, develops knowledge and provides the necessary focus to commence the study.

Over the past 30 years, there have been many examinations of the corporate social reporting (CSR) practices of firms from various different angles. Some have examined CSR from the perspective that there must be some kind of relationship between CSR and company characteristics. Others have examined CSR from theoretical perspectives and tried to explain the phenomenon from their political understanding. The conclusions from these studies, which will be carried forward in this thesis, indicate that:

1. There is a degree of consensus emerging that the conventional annual reporting is too narrow and in failing to address CSR issues explicitly, is enabling reporting enterprises to by-pass disclosure of these issues.
2. There is also evidence that some financial sector groups are beginning to use their market position to demand environmental performance data from companies as a prerequisite for a credit or investment transaction.
3. CSR does not appear to be related to profitability in the same period; however, enhancements to reporting entities' long-term corporate image and reputation are seen as a by-product of the disclosure decision.
4. There is some evidence of industry effects on the disclosure decision.
5. The country in which the organisation is reporting and the country of ultimate ownership seem to have significant effect on reporting practices.

6. There would appear to be a number of corporate characteristics that may be related to a predisposition to make social disclosures, in particular company size.
7. Some sort of combination of political economy, legitimacy theory and stakeholder theory seem to be used to explain CSR activities.
8. CSR disclosures may be presented differently depending on the medium used.

Chapter Four

Comparative Frameworks

4.1 Introduction

It is widely noted in academic literature that culture impacts business practice in general and the development of accounting and reporting systems in particular. The first half of this chapter overviews the role and influence of culture on the development of accounting systems. The second half of the chapter highlights how the specific accounting, reporting and regulatory frameworks were developed in the case of the United Kingdom, the Western baseline comparator for this research.

4.2.1 The Role of Cultural Differences

Sugiura (1999) argued that, institutionalisation of each market society is closely related to its corresponding culture. Brown and Humphreys (1995) defined culture as "what provides human beings with a design for living, with a ready-made set of solutions to problems so that individuals in each generation do not have to start again from scratch". Humphreys (1996) explained that it can be argued that these differences in work-related values are the result of an underlying difference in culture. Also, Hofstede (1991) gives a definition derived from the world of computing, in line with his title *Cultures and Organisations: Software of the Mind,* he suggests that culture is "the collective programming of the mind which categorise a group of people from another". He uses group to mean a number of people in contact with each other and "category" to consist of people who, without necessarily having contact, have something in common.

In management literature, culture is seen as an important influence on practice. Hofstede (1980, 1991), Humphreys (1996) and others describe the degree of influence of culture in general and more specifically in the sub-divisions of national, organisational and occupational, as outlined in the following section.

National Culture

Hofstede (1991) distinguishes between nations and societies. He suggests that the concept of a common culture is more applicable to societies than to nations. However, he recognizes that where there are strong forces "for integration within nations such as a dominant language, common mass media, national education system, national political system, national armed forces and national representation in sports events, then nations can be regarded as the "source of a considerable amount of common mental programming of their citizens". Along these lines, Humphreys (1996) in his study on cultural differences between the UK and Egypt in educational institutions, argued that "there is no doubt that there are cultural differences arising from differences in common mental programming between the UK and Egypt which would certainly account for variations in such attitudes to duty and the slow slog up the hierarchy of single bureaucratic organisations. National culture would seem to be a highly significant factor here".

Hofstede (1980), has suggested four dimensions of difference in culture between nations, and clusters these differences according to whether they are high or low within each of these dimensions that he labelled "power-distance", "uncertainty avoidance", "individualism", and "masculinity".

1. *Power-distance* is described as "the extent to which the less powerful persons in a society accept inequality in power and consider it normal".

2. *Uncertainty avoidance* is described as "the extent to which people in a culture are made nervous by situations which they consider as unstructured or unknown situations, and the extent to which they *try* to avoid such situations by adopting strict codes of behaviour and a belief in absolute truths".

3. *Individualist:* As it is claimed that the individual is a product of his/her social environment,

individualism pertains to the extent to which individual independence or social cohesion dominates.

4. *Masculinity* refers to the degree to which social gender roles are clearly distinct. Hofstede sees masculine cultures as having vastly different social roles for the sexes, whereas in feminine cultures social roles overlap significantly.

Humphreys (1996) argued that, when using Hofstede's four culture dimensions, differences between cultures in the UK and Egypt are clearly apparent. However, numerical differences in the above four dimensions are only indicators of the deeper and more complex national cultural differences to be found between the two nations.

Organisational Culture

Organisational culture has seen a plethora of literature in the last 15 years. Leisen et al.(2002) defined organisational culture as " the pattern of shared values and beliefs that help individuals understand organisational functioning and thus provides them with norms for behaviour in the firm". This notion of culture is similar to the view that culture is an organisational trait manifested in the shared values and beliefs of its members (Hofstede, 1991). An imbalance between societal and organisational cultural values may be particularly important for organisations in less developed/developing countries. Trompenaars (1993) categorises organisational culture as four main types based on two dimensions: equity hierarchy and person-task orientation. Four organisational cultures emerge and are summarised below.

1. *The Family (a power-oriented culture).* This culture is characterised by strong emphasis on the hierarchy and an orientation towards the person. Individuals within this organisational

form are expected to perform their tasks as directed by the leader, who may be viewed as the caring parent. Subordinates not only respect the dominant leader or father figure but they also seek guidance and approval.

2. *The Eiffel Tower (a role-oriented culture).* A strong emphasis on the hierarchy and an orientation towards the task characterises this culture. The "Eiffel Tower" image is intended to symbolise the typical bureaucracy- a tall organization, narrow at the top and wide at the base where roles and tasks are clearly defined and coordinated from the top. Authority is derived from a person's position or role within the organisation, not the person, per se.

3. *The Guided Missile (a task-oriented culture).* Trompenaars' third type of organisational culture is characterised by a strong emphasis on equality and an orientation toward the task. The motto for this culture type is "getting things done". Organisation structure, processes, and resources are all geared toward achieving the specified task/project goals. Power is derived from expertise rather than the formal hierarchy.

4. *The Incubator (a fulfilment-oriented culture).* This culture is characterised by a strong emphasis on equality as well as an orientation toward the person. Trompenaars states that the purpose of the organisation in such a culture is to serve as an incubator for the self expression and self-fulfilment of its members.

Trompenaars acknowledges that 'pure types' rarely exist. However, he observed a tendency for particular organisational culture forms to dominate in different national cultures. Joiner (2001) explained that, in a climate of increasing globalisation and the concomitant increasing competition, there is enormous pressure exerted on organisations to restructure to enable them to compete successfully in a borderless world. Progressive local firms in less developed/ developing countries may, among a repertoire of restricting strategies, consider changing their organisational culture to mimic the culture of successful organizations from the more industrialised nations. However, the implementation of an organisational cultural change, without reference to the surrounding societal values, may jeopardise the success of that change. Humphreys (1996), in his study argued that, there are certainly huge differences between the organisational cultures of typical technical educational institutions in Egypt and the UK.

Occupational Culture

The notion of an occupational culture would suggest that there are likely to be similarities between the values and actions of the members of the same occupation, which would transcend the differences in nationality or organisation (Humphreys, 1996). It has already been noted that there are a variety of factors, which contribute to culture differences between nationalities, such as a dominant language, common mass media, national education system, national political system, and national armed forces.

4.2.2 The Influence of Culture on the Development of Accounting Systems

Wallace and Gernon (1991) argued that, while a great deal of observation and hierarchy building has occurred, a comprehensive theory that explains existing cross-national differences in the structure and practice of financial reporting still does not exist. Similarly, Gray (1988) states that:

> "While prior research has shown that there are different patterns of accounting internationally and that the development of accounting systems tends to be a function of environmental factors, it is a matter of some controversy as to the identification of the patterns and influential factors involved... The influence of culture on accounting would seem to have been largely neglected in the development of ideas about international classifications."

As a solution, Gray proposed a comprehensive model of accounting values linked to Hofstede's (1980) societal values. These accounting values, in turn, explain and determine the structures and practice of accounting, including the basic tenets of management and disclosure that determine financial reporting practices. Gray's model of culture, societal values and the accounting subculture began with Hofstede's propositions that societal values have institutional consequences in the form of legal, political and economic systems including the pattern of corporate ownership and capital market. Gray then extended Hofstede's model by hypothesizing the existence of an accounting subsystem, which drew its value system from the primary societal value system. As Gray explained:

> "The value systems of attitudes of accountants may be expected to be related to and derived from societal values with special reference to work related values. Accounting 'values' in turn impact on accounting systems."

Gray continued by defining four accounting values- Professionalism, Uniformity, Conservation, and Secrecy. These values interact with the other institutional consequences of culture such as capital markets to arrive in the final set of accounting systems that include financial reporting practices and professional structures. These are as follows:

1. *Professionalism versus Statutory Control:* a preference for the exercise of individual professional judgment and the maintenance of professional self regulation as opposed to compliance with perspective legal requirements and statutory control;

2. *Uniformity versus Flexibility:* a preference for the enforcement of uniform accounting practices between companies and the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies;

3. *Conservatism versus Optimism:* a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach; and

4. *Secrecy versus Transparency:* a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and accountable approach.

Values are, in turn, linked to Hofstede's cultural constructs of Individualism, Uncertainty Avoidance, Power Distance and Masculinity, by four hypotheses. These are as follows:

1. The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism;
2. The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity;
3. The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of conservatism; and
4. The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of secrecy.

By applying these hypotheses, Gray contends the dimensions of uncertainty avoidance and individualism are the most influential dimensions in relation to the accounting subculture dimensions. Salter and Niswander (1995) tested Gray's model, based on data from twenty nine countries, they found that while Gray's model has statistically significant explanatory power, it is best at explaining actual financial reporting practices and is relatively weak in explaining extant professional and regulatory structures from a cultural base. They further found that both the development of financial markets and levels of taxation enhance the explanations offered by Gray.

4.3 Research Comparator: The United Kingdom

4.3.1 Accounting Regulation and Legislation

In the UK the accounting regulatory system has involved a mixture of legal control and self-regulation. It is self-regulation within a legal framework that continues to be the dominant underlying approach (Taylor and Turley, 1986). Therefore, accounting regulation can be found in both professional pronouncements (Statements of Standard Accounting Practice) and legislation (Companies Act).

Although accounting was not actually invented in the UK, it can nevertheless be said that it invented the conditions in which limited liability companies could be created and flourish, and in which there would be a need for director/managers to provide owner/shareholders with periodic audited accounts (Lee and Parker, 1979). The industrial revolution and the development of international trade in the 19th century in the United States and the UK created a tremendous amount of new wealth in these countries, wealth that spread widely among the general populace (Mueller et al, 1987). The growth of large-scale enterprises and corporations was combined by the increasing demand for capital. The middle classes became a source of meeting much of this need. This reinforced the separation between the financing function and the management function. According to Mueller et al (1987), what emerged from this phenomenon had an important impact on financial accounting in the UK and the US. First, the investors/creditors group became large and diverse, and companies acquired a widespread pattern of ownership. Second, the owners became divorced from the management of their companies. To afford the outside investors and other financiers with a measure of protection, the British government introduced a succession of Companies Acts, (Most, 1977). The regulation of financial accounting practices in the UK has its beginning in the Joint Stock Companies Act of 1844 (Nobes and Parker, 1991) and in order to meet changes in the environment, Acts have been progressively supplemented and refined up to the present day (Most, 1977).

Throughout the nineteenth century, however, there were no mandatory accounting and audit regulations in the general Companies Acts, although railways, banks and public utilities were subject to much greater regulation (Parker, 1990). According to Parker (1990), it is only during the twentieth century that the rules in the Acts have greatly increased in both quantity and complexity. This process is marked by the 1948 Act which remained the principal act for almost forty years but was amended by a series of Acts; such as those of 1967, 1976, 1980, 1981. Before 1981, company law contained mainly disclosure rules. These have been greatly expanded and many measurement rules have been added (Parker, 1990). The contents of the profit and loss account and balance sheet are prescribed by the Companies Act 1981, which was based on the Fourth Directive on Company Law of The EEC (Lee, 1984). In 1985 all previous Acts were consolidated into the Companies Act 1985. The accounting and auditing provisions of the Act were amended and restated by Companies Act 1989, which was precipitated by the need to harmonise UK legislation with EU legislation, principally the EC 7th Directive.

These Acts each require corporation to prepare a profit and loss account and a balance sheet at the end of each accounting period. The financial statements must give a 'true and fair view' of the company's profit or loss and financial position. Corporations are also required to keep proper books of account, which should contain the information necessary to give a 'true and fair view' of the company's financial affairs. According to the Act, the financial statements, along with the directors' report and the auditors' report, must be prepared within nine months of the year-end and prior to the date of the annual general meeting of the stockholders. The Companies Acts require the appointment of a qualified auditor for each corporation. The auditor's report should state whether financial statements (profit and loss accounts and balance sheets) are prepared in conformity with the Companies Acts and whether they give a 'true and fair view' of the company's financial position and the results of its operations (Alhashim et al, 1992). In order to do the job effectively, an auditor is given power to call for and examine any book, document, or other record of the company and to require any information or explanation which is thought to be necessary for the purposes of the audit (Lee, 1984).

Although there have been a number of changes in the law, it has tended to avoid the detailed prescription of accounting rules and regulations on the form and content of the annual reports (Taylor and Turley, 1986). According to Standish (1981), in essence, the Companies Acts then provided for:

- A general procedure for the incorporation of companies with limited personal liability for shareholders;
- The powers and duties of directors in regard to management of the affairs of the company;
- The accountability of directors to the shareholders, particularly through the presentation of the annual accounts and the directors' report thereon;
- Audit of the annual accounts;
- Procedures for issuing shares and other securities to the public at large; and
- Procedures for the conduct of affairs of companies which become insolvent, leading either to their continuance under the direction of a receiver, or to liquidation.

The Fourth Directive of the EU went some way in requiring member countries to amend their company law in order to standardise the content and presentation of corporate financial statements. Glautier and Underdown (1992) argue that current UK legislation brings the country in line with other EU members in respect of content and format of corporate financial statements. Although the UK has made many refinements to the Company Acts, such as the 1989 Act to bring UK legislation closer to European Community Directives, professional accounting in the UK was left free to regulate and standardise accounting practice under a self-regulatory approach. Nobes (1991) states in connection with the influence of the fourth Directive on accounting in Anglo-Saxon countries "even now there remains much more flexibility in the United Kingdom, Ireland and the Netherlands than in the rest of the EC and US flexibility of formats and terminology is greater still".

The Companies Acts have influenced accountancy in the UK mainly to protect the interest of a small group, especially providers of capital, and to prevent distortions through attempts to ensure disclosure of all relevant matters. The accounting system in the UK appears to be concerned with providing information, mainly to investors, to show how management has exercised its responsibilities of stewardship in using their investment and how much return they will get.

4.3.2 The Accounting Profession

The structure of the profession in the UK reflects historical events rather than any overall planned coverage of membership and distribution of functions (Parker, 1991). It has been argued that the UK's major contribution to accounting was the development of professional bodies. It is one of the earliest countries to establish professional accounting organisations. The first was the Society of Accountants in Edinburgh in 1854, and the second was the English Institute in 1880. The idea of professional bodies for accountants soon spread within the UK and to other countries (Samuels, 1985). As accounting practices were not fully described by the Law, professional accounting bodies became responsible for the development of accounting. Standard setting in the Institute of Chartered Accountants in England and Wales (ICAEW) began with the issue of Recommendation on Accounting Principles in 1942. These pronouncements were intended as general guidance to Institute members (Zeff, 1973).

The late 1960s saw a sharp and dramatic increase in the level of criticism of the accountancy profession in the UK, particularly with regard to the flexibility of accounting practice and to what were widely regarded as damaging examples of misleading annual accounts (Parker, 1991). This resulted in the publication of the 'Statement of Intent on Accounting Standards' in the 1970s by the Institute of Chartered Accountants in England and Wales, with its stated objectives of 'narrowing the areas of differences and variety in accounting practice' (Lee, 1975). The implications of the new programme for the entire accounting practice in the UK encouraged four other accountancy bodies to join with the English Institute in 1970 in the new effort for control. The bodies were: The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants in Ireland, The Association of Certified Accountants, and The Institute of Cost and Management Accountants (Zeff, 1973). An Accounting Standard Steering Committee was established consisting of representatives from all five accountancy bodies.

In June 1972, the London Stock Exchange made it known that its listed companies would be required to disclose in their annual reports any material departures from accounting practices recommended in the Statements of Standard Accounting Practice. In 1974, the governing six bodies of the ASSC (including the Chartered Institute of Public Finance and Accountancy) formed the Consultative Committee of Accountancy Bodies (CCAB).

In 1976, the ASSC was renamed the Accounting Standards Committee (ASC), which had the prime objective of narrowing the areas of difference and variety in accounting practice. The ASC prepared, but did not issue or enforce, accounting standards; that is, the role of the six bodies comprising the CCAB. The procedure used for this purpose was initiated by the issue of an 'Exposure Draft' on a specific topic for discussion by accountants and the public at large. Comments made on the Exposure Draft are taken into consideration when drawing up a formal statement of the accounting method to be applied when dealing with that specific topic. This formal statement was known as a Statement of Standard Accounting Practice (SSAP). Once the SSAP had been adopted by the accounting profession, any material departure from the standard used in presenting financial reports needed to be disclosed in that report (Glautier and Underdown, 1992).

The ASC consisted of 20 part-time, unpaid members. Five of them were actual 'users' of financial reports. ASC was not mandatory by law, although it did have the authority to discipline professional members for lack of adherence to its standards, an authority it did not exert. Nonetheless, auditors did note any such lack of compliance in qualified audit opinions, as does the Stock Exchange, (Bloom and Naciri, 1989).

Although much of the profession's rule making was accepted by government, commerce and industry, the ASC made no attempt to construct a conceptual framework and in some critical areas, the ASC notably failed to produce acceptable rules. In 1990, an Accounting Standard Board (ASB) replaced the ASC. The introduction of Statements of Recommended Practice

(SORPs), similar to the old recommendations, means that some industries, including the economically vital oil and gas industry, are allowed and encouraged to prepare their own accounting rules for approval.

The UK evidence suggests that the accounting profession has developed in response to historical events, rather than to any predetermined plan setting out its purpose, function and nature of membership. Nobes and Parker (1985) argue that, for a country having in all significant respects common company and tax laws, the existence of the six professional bodies creates what can be termed system redundancy, with major effort being required to co-ordinate their views and resolve conflict, which in a uniform structure would occur as part of the internal policy process of the profession.

Many researchers questioned the outcome of the UK's accounting system in meeting its own environment needs. For instance, Briston (1978) viewed the UK accounting system as "barely adequate for meeting the external reporting needs of the private sector, and it is completely inadequate in the field of public sector accounting, economic planning, and the definition and measurement of efficiency-fields incidentally which have long since overtaken reporting to investors as the main concerns of modern economics" (Briston, 1978).

Briston (1978) further criticised the UK accounting system on the basis that it was established to meet the perceived needs of mid-nineteenth century capitalism, but it was created in a rigid and self-perpetuating structure, which has proved resistant to the changing needs of the economy. He added that, "Certainly if an accountancy system were to be designed from 'scratch' to meet the current informational requirements of the economy, it would take a very different form in both the private and the public sectors from that currently operated". The UK accounting system displays the following features:

1. The dominant concern of accounting is to meet the needs of one stakeholders group, namely shareholders. The needs of other stakeholders are either given scant attention or ignored;
2. The dominant concern of accounting is with financial reporting and external auditing. Much less attention is given to other areas and little concern is shown for the need to establish a link between micro and macro accounting;
3. Shaping the accounting system is largely the responsibility of the accounting profession;
4. Accounting methods and procedures are left to be determined by management within a broad framework;
5. The accountants' and auditors' attention is focused on compliance with detailed reporting requirements rather than whether the accounting system assists in management or government to reach decisions; and
6. The government and its bodies are not regarded as influential in the areas of developing accounting theory and practice.

4.3.3 CSR Initiatives in the United Kingdom

As argued in the previous chapters, CSR is not a new phenomenon. Countless initiatives have been proposed and instigated, both successfully and unsuccessfully, over the past 30 years. Meaningful discussion of all attempts at legislating CSR is beyond the scope of this research, therefore, table 4.1 overviews the main CSR initiatives currently in force in the United Kingdom. Table 4.2 outlines initiatives currently under consideration in the United Kingdom.

Table 4.1: CSR Initiatives in Force in the United Kingdom

Initiative	Overview of Regulation
OECD Convention on combating the bribery of foreign public officials in international business transactions	The Convention came into force in 1999 and aims to prohibit the bribing of foreign public officials in order to obtain or retain business or other improper advantage in the conduct of international business (Article 1:1) The UK ratified the Convention on 14 December 1998
Anti-terrorism, Crime and Security Act	In 2002 the UK law codified the existing common law and, in fact, extended it beyond the OECD Convention requirements. UK companies and nationals (including directors) can now be prosecuted in the UK for corruption offences wherever they take place in the world and whether they involve public officials or the private sector
Income and Corporation Taxes Act	Amendments were made to the Act, which came into force in July 2002, to prevent payments made outside the UK which constitute a criminal offence if made within the UK as being treated as tax deductible
United Kingdom Listing Authority's ("UKLA") Combined Code: Principles of Good Governance and Code of Best Practice	In the early 1990s there were initial calls for increased transparency and greater corporate governance. This resulted in a number of business-led initiatives that addressed the largely financial related aspects of governance, which culminated in the UKLA's Combined Code: Principles of Good Governance and Code of Best Practice (the "Combined Code"). The 1999 Turnbull Report further expanded the Code and provided guidance for directors on the internal control requirements of the Combined Code. The Turnbull Guidance on internal control involves Boards identifying and reviewing the risks faced by their business; introducing monitoring and control processes and reporting annually to shareholders on compliance.
Forge II Guidelines on CSR Management and Reporting for the Financial Services	The Forge Guidelines, launched November 2002, are voluntary guidelines developed by leading financial services institutions together with the Association of British Insurers and the British Bankers Association. Built on earlier sector environmental management and reporting guidelines, they provide best practice guidance on developing and implementing a CSR management and reporting framework.
The Association of British Insurers Guidelines	These guidelines, which were issued in October 2001, contain recommendations on how to improve disclosure by inviting companies to state their approach to CSR and encourage companies to adopt the best practice when responding to external social, ethical and environmental risks.
Directors' Remuneration Report Regulations 2002[5]	The Regulations, which came into force on 1 August 2002, provide that in future, the annual report will be

	required to include details of: directors' remuneration; individual directors' remuneration packages; the company's remuneration policies; and information regarding the role of the Board and the remuneration committee.
The London Principles	These guidelines were developed from a project commissioned by the Corporation of London to examine the role of the UK financial services sector in promoting sustainable development. The corporation signed a memorandum of understanding to promote the guidelines on 30 August 2002. The guidelines cover the areas of economic prosperity, environmental protection and social development.
US Sarbanes-Oxley Act 2002	On 30 July 2002 the Sarbanes-Oxley Act of 2002 was signed into force in the US, the most comprehensive series of amendments to the US federal securities laws since the 1960s. Many of the Act's requirements are being implemented through the rulemaking procedures of the US Securities and Exchange Commission (the "SEC"). The Act attempts to reinforce the enforcement powers of the SEC through stiffer penalties. The Sarbanes-Oxley Act applies to companies (US and non-US) with securities registered under or otherwise required to file reports with the SEC pursuant to the US Securities Exchange Act of 1934, as amended. The Act does not apply to those companies who have certain reporting exemptions. The provisions to note are those requiring that CEOs and CFOs certify company financial statements; that CEOs and CFOs forfeit their performance bonuses and profit on stock sales in certain circumstances; the prohibition of loans to officers and directors; enhanced responsibilities for audit committees; auditor independence; the restriction on trading by company directors and executives; additional company financial disclosures; the regulation of insider transactions; and "whistleblower protection" for employees who provide evidence of accounting problems or other fraud related situations involving their employer.
OECD Guidelines for Multinational Enterprises	The guidelines were first adopted by participating Governments in 1976 and amended in 2000. They seek to express standards of behaviour expected by OECD Governments of multinational enterprises based in, or operating in, their territory. The OECD guidelines were amended in 2000. Under the Guidelines, adhering countries are required to establish a National Contact Point ("NCP") to handle enquiries concerning all matters covered by the Guidelines. The UK NCP is an interdepartmental body based in the International Investment Policy Unit of DTI

The Global Compact	To date 82 companies have committed to the nine principles of the UN's Global Compact. At the World Economic Forum in Davis on 31 January 1999, UN Secretary-General Kofi Annan challenged world business leaders to "embrace and enact" the Global Compact, both in corporate practices and by supporting appropriate public policies.
Global Reporting Initiative	The initiative was formally inaugurated in April 2002. GRI is an international, multi-stakeholder effort to create a common framework for voluntary reporting on an organisation's activities. In November 2002, GRI entered into a new cooperative framework with the UN's Global Compact such that companies endorsing the Global Compact are encouraged to use GRI reporting to fulfil their requirements.
Ethical Trading Initiative	The ETI is a partnership of companies, non-governmental organisations, and trade unions working to identify and to promote ethical trade.
Business in the Community's Corporate Social Responsibility Index	On 23 September 2002, questionnaires for the first Corporate Responsibility Index and the 7th Business in the Environment Index were issued. FTSE 100, FTSE 250 and equivalent internationally listed groups were invited to participate in the survey. Individual company results remain confidential to the company, while top-line results are published annually in two summary reports. The Index is intended to measure a company's performance on how it integrates corporate responsibility within its core business practices and on its management performance across the key areas of environment, workplace, community and marketplace.
EU Rapporteur	Richard Howitt MEP is the European Parliament's Rapporteur on the European Commission's Green Paper on Promoting a European Framework for Corporate Social Responsibility 2001.
Minister for Corporate Social Responsibility	This new post was created in March 2001, coinciding with the launch of "Society and Business" which provides a business case for CSR and associated information. The Minister for corporate social responsibility is currently Stephen Timms MP.
New Corporate Volunteering Initiative	This was announced in the Pre Budget Report in November 2002 as a joint Treasury and Home Office financial scheme to help young British volunteers from lower income backgrounds take a year out after school to undertake community service.
International Labour Organisation Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy	This invites employers and workers organisations and multinational enterprises to observe principles in the fields of employment, training, conditions of work and life, and industrial relations, on a voluntary basis.

Fundamental ILO Conventions	These are identified as being fundamental to the rights of human beings at work irrespective of the levels of development of individual Member States. Primary responsibility for implementation lies with the Member States of the ILO but this could, in turn, impact business. The UK has ratified all the fundamental conventions.
ILO Declaration on Fundamental Principles and Rights at Work, 1998	This declaration requires all Member States that have not ratified the fundamental ILO Conventions nevertheless to promote the following principles: · Realisation of a freedom of association and recognition of the right to collective bargaining; · Elimination of all forms of forced or compulsory labour; · Effective abolition of child labour; and · Elimination of discrimination in respect of employment and occupation.
Working Time (Amendment) Regulations 2001	The Regulations amended the Working Time Regulations, removing the 13-week qualifying period for holiday pay and substituting it with the right to take one-twelfth of the annual leave for each month worked, rounded to the nearest half day.
Race Relations Act (Statutory Duties)Order 2001	The Order, which came into force on 3 December 2001, places all public bodies under a statutory duty to promote racial equality.
Maternity and Parental Leave (Amendment) Regulations 2001	These amendments to the existing regulations came into force on 10 January 2002. All parents with children, under the age of five as at 15 December 1999 are eligible to take parental leave. Parents of disabled children are entitled to take up to 18 weeks' leave.
Employment Act 2002	The Act, which came became law on 8 July 2002, makes provision for statutory rights to paternity and adoption leave and pay and paves the way for amendments to the law relating to statutory maternity leave and pay, as well as introducing a right to request flexible working arrangements.
ISO 14001	This is an international standard, which specifies the requirements for an environmental management system ("EMS"). ISO 14001 is a management tool, which organisations of any size and type can use to help them control the impact on the environment of their activities, products and services in a structured and systematic way.
Making a Corporate Commitment (MACC 2)	MACC 2, a Government initiative, invites companies and public sector organisations to commit to setting quantified targets for improving resource efficiency and environmental performance and reporting on these targets. It covers greenhouse gas emissions, waste and water. MACC 2 is voluntary.
Environmental Reporting	The Department of Environment, Food and Rural

Guidelines	Affairs have produced a number of guidelines to assist companies on reporting, including General Guidelines on Environmental Reporting and guidelines specific to Greenhouse Gas Emissions, Waste and Water Use.[24] They each provide details as to what a company should be aiming to include in its annual report should the company wish to report voluntarily.
Health and Safety at Work Act (1974)	This Act imposes duties on employers to ensure the health and safety of their employees and to ensure that the health and safety of other persons is not adversely affected by the employer's undertaking.
Directors' Health and Safety Responsibilities	In July 2001, the Health and Safety Commission published new guidance on the health and safety responsibilities for company directors and the board members of public sector and voluntary organisations. Although not law, compliance with the guidance will normally be enough to demonstrate legal compliance.
Corporate Manslaughter (common law offence)	Manslaughter charges are increasingly being brought in "death at work" cases against both companies and individuals.
Pensions Act 1995 and the Occupational Pension Schemes Amendment Regulations (1999)	In July 2000, the Pensions Act 1995 was amended, significantly affecting the world of investment. Pension fund trustees must now state the extent to which they take social, environmental, and ethical considerations when they invest money.
Dow Jones Sustainability Index	The Dow Jones Sustainability Indexes were set up to meet the financial market's demands for indexes to benchmark the performance of investments in sustainability companies and funds. The indexes are provided by Dow Jones in Association with SAM Sustainable Asset Management and STOXX Limited
FTSE4Good	There are eight indices in the FTSE4Good series (all available in real-time): four benchmark indices (FTSE4Good UK, FTSE4Good Europe, FTSE4Good Global Index, FTSE4Good US Index) and four tradable indices (FTSE4Good UK 50, FTSE4Good Europe 50, FTSE4Good USA 100, FTSE4Good Global 100). The FTSE4Good bases entry on its Selection criteria cover three areas: working towards environmental sustainability; developing positive relationships with stakeholders; upholding and supporting universal human rights.

Table 4.2: Initiatives under Consideration in the United Kingdom

Initiative	Overview of Regulation
UN Draft Convention Against Corruption	This was first published at the first session of the Ad Hoc Committee for Negotiation of the Convention in February 2002. The Ad Hoc Committee is expected to conclude the drafting of the Convention by the end of 2004.
Council of Europe Criminal Law Convention on Corruption	The Convention's implementation is monitored by the Group of States against Corruption – "GRECO" (which started functioning on 1 May 1999). States are required to provide for effective and dissuasive sanctions and measures, which can lead to extradition. Legal entities can also be held liable for offences, and are subject to effective criminal or non-criminal sanctions (including fiscal penalties). The UK has not ratified the Convention but it is presently before a Parliamentary Committee for discussion.
Council of Europe Civil Law Convention on Corruption	The Convention seeks to combat corruption by means of civil law measures, requiring its Member States to criminalise corruption (in both the public and private sectors) wherever this is not the case at present. Its Member States will have to provide in their domestic law for effective remedies for persons who have suffered damage as a result of acts of corruption, including the possibility of obtaining compensation for damage. The Convention will come into force when ratified by a sufficient number of countries (at present eight out of the 14 ratifications required have been received). The Convention has been signed, but not ratified by the UK.
The Proceeds of Crime Act 2002	This Act consolidates and generally strengthens the law on laundering proceeds of drug trafficking and criminal law offences. There will be a new regime for confiscation and restraint orders and civil recovery by the Assets Recovery Agency. This may extend to confiscation or recovery of profit made on a contract which falls foul of the new bribery legislation
EU Action Plan for Company Law and the Modern Regulatory Framework for company law in Europe	In September 2002, the European Commission was invited by the Competitiveness Council to present an action plan for Company Law including corporate governance. The European Commission is reported to be considering issuing a communication in early 2003. On 4 November 2002, the High-Level Group of Company Law Experts presented their final report on a modern regulatory framework for company law in Europe, including corporate governance to the European Commission.
DTI's White Paper: Modernising Company Law	The White Paper, published in July 2002, recommends that large or public companies include additional information in their annual report, outlining companies' performance and future direction in the form of an

	operating and financial review. There is to be a statutory statement of director's duties which would require directors to recognise that the collective interests of shareholders involves fostering relationships with employees, customers or suppliers, maintaining a business reputation and considering the impact of its activities on the community and environment.
Corporate Responsibility Bill	The Bill, introduced by Linda Perham MP and others, received its first reading in the House of Commons in June 2002. It made provision for UK companies with a turnover in excess £5 million to produce and publish reports on environmental, social and economic and financial matters. However, the House of Commons' Weekly Information Bulletin of 27 July 2002 stated that the Bill was marked as "Dropped". The presentation of the Bill was, nevertheless, indicative of growing parliamentary interest.
UN Sub-Commission on Human Rights Draft norms on the Responsibilities of Transnational Corporations and other Business Enterprises	In 1999 the UN set up a working party to develop a code of conduct for businesses based on human rights' standards. In August 2002, the UN published a further draft of the principles which seek to impose on TNCs certain human rights obligations and responsibilities. Primary responsibility for enforcement will lie with Governments. The Sub Commission on Human Rights is considering the appointment of a Special Rapporteur to implement the draft norms by receiving information about human rights violations committed by transnational companies.
European Commission's Green paper: Promoting a European Framework for Corporate Social Responsibility (2001)	The Green Paper explores how the EU could promote CSR at both a European and international level. Parties were invited to express their views on "how to build a partnership for the development of a new framework for the promotion of CSR, taking account of the interests of both business and stakeholders". The consultation closed on 31 December 2001.
MEPs non-legislative resolution on company reporting	The European Parliament's Employment and Social Affairs Committee voted, in April 2002, that companies operating in the EU should have to publish independently verified social and environmental reports alongside their annual financial reports. However, the Commission has been reported as stating it is unlikely to propose mandatory company reporting at this stage.
Commission's strategy to Promote Business Contribution to Sustainable Development (2002)	The Commission's strategy includes: · Setting up an EU multi-stakeholder forum on CSR which aims to achieve a degree of convergence regarding environmental reporting; · Establishing a business case for good CSR; and · Encouraging small and medium-sized enterprises ("SME"s) to embrace CSR.

4.4 Conclusion

In management literature, culture is seen as an important influence on practice (see Hofstede, 1980, 1991; Humphreys, 1996). Culture impacts business practice in general and the development of accounting and reporting systems in particular. While a great deal of observation and hierarchy building has occurred, a comprehensive theory that explains existing cross-national differences in the structure and practice of financial reporting still does not exist (see Wallace and Gernon, 1991).

As a solution, Gray (1988) proposed a comprehensive model of accounting values linked to Hofstede's (1980) societal values. These accounting values, in turn, explain and determine the structures and practice of accounting, including the basic tenets of management and disclosure that determine financial reporting practices. Gray's model of culture, societal values and the accounting subculture began with Hofstede's propositions that societal values have institutional consequences in the form of legal, political and economic systems including the pattern of corporate ownership and capital market. Gray then extended Hofstede's model by hypothesizing the existence of an accounting subsystem, which drew its value system from the primary societal value system. Gray continued by defining four accounting values-Professionalism, Uniformity, Conservation, and Secrecy. These values interact with the other institutional consequences of culture such as capital markets to arrive in the final set of accounting systems that include financial reporting practices and professional structures.

Although a more robust and complete model than Hofstede, Gray's model is not without its critics. Salter and Niswander (1995) tested Gray's model, based on data from twenty nine countries, they found that while Gray's model has statistically significant explanatory power, it is best at explaining actual financial reporting practices and is relatively weak in explaining extant professional and regulatory structures from a cultural base. They further found that both the development of financial markets and levels of taxation, variables omitted from Gray's model, further enhance the explanations offered by Gray. It would then seem that a significant gap exists in the empirical literature in general, and in the context of developing countries in particular, regarding the influence of culture on accounting. By providing in depth case study analysis of the cultural, economic and professional environments in Egypt and India, it is the aim of this research to contribute to the body of knowledge by providing empirical data that will go some way towards filling this gap in the literature.

In the UK the accounting regulatory system has involved a mixture of legal control and self-regulation. It is self-regulation within a legal framework that continues to be the dominant underlying approach. The Companies Acts have influenced accountancy in the UK mainly to protect the interest of a small group, especially providers of capital, and to prevent distortions through attempts to ensure disclosure of all relevant matters. The accounting system in the UK appears to be concerned with providing information, mainly to investors, to show how management has exercised its responsibilities of stewardship in using their investment and how much return they will get.

It has been argued that the UK's major contribution to accounting was the development of professional bodies as one of the earliest countries to establish professional accounting organisations. The structure of the profession in the UK reflects historical events rather than any overall planned coverage of membership and distribution of functions (Parker, 1991). UK evidence suggests that the accounting profession has developed in response to historical events, rather than to any predetermined plan setting out its purpose, function and nature of membership. For a country having in all significant respects common company and tax laws, the existence of six professional bodies creates system redundancy, with major effort being required to co-ordinate views and resolve conflict, which in a uniform structure would occur as part of the internal policy process of the profession. The structure of the accounting profession combined with changes in the Company Acts and EU Directives designed to standardise the content and presentation of corporate financial statements, has led to critics viewing the UK accounting system as a haphazard response to environmental changes rather than a systematic process (see Briston, 1978). It is arguably this very criticism that has enabled the development of the breadth and width of CSR initiatives (see tables 4.1 and 4.2) currently in force and under consideration in the United Kingdom.

Chapter Five

The Egyptian Context

5.1 Introduction

Egypt is the most populous country in the Arab world. Its nearly 72 million people live predominantly in Cairo and Alexandria, on the banks of the Nile, in the Nile delta, or along the Suez Canal. These regions are among the worlds most densely populated, containing an average of over 1,540 persons per square kilometre (Country Watch, 2004). Small communities spread throughout the desert regions of Egypt are clustered around oases as well as historic trade and transportation routes. The government has tried, with mixed success, to encourage migration to newly irrigated land reclaimed from the desert. The proportion of the population living in rural areas has continued to decrease as people move to the cities in search of employment and a higher standard of living.

The Egyptians are a fairly homogeneous people who take pride in their Pharaonic heritage and in their decent from what they consider mankind's earliest civilisation. Egypt has endured as a unified state for more than 5,000 years, and archaeological evidence indicates that a developed Egyptian society has existed for much longer (Country Watch, 2004).

The literacy rate is about 57.7 percent of the adult population, although the rates per gender are not equal. The literacy rate for males is approximately 68.3 per cent, while for females it is only 47 per cent. Education is compulsory from ages six through twelve and free through university. There are 20,000 primary and secondary schools with some 10 million students; 12 major universities with about 500,000 students and 67 teacher colleges. Major universities include Cairo University (100,000 students), Alexandria University, the American University in Cairo and the 1,000 year-old Al-Azhar University, one of the world's major centres of Islamic learning.

Most Egyptians (87%) practice Sunni Islam, while Coptic Christianity is the major non-Islamic religion practiced by approximately 11% of the population. Given the overwhelming Muslim majority, Islamic values, as they pertain to the present research, are discussed in the following section.

5.2 Islamic Shari'ah

The influence of religion upon accounting is not an issue that has been explored to a great extent in the conventional literature, although it has been argued that the two might be connected (Lewis, 2001). Traditionally, religion has had a role in shaping and enforcing ethical behaviour such as truthfulness, honesty and social justice. A community in which such values are held in high regard may be marked by an elevated degree of trust in business dealings and financial affairs.

Culture, as discussed in the previous chapter, governs how individuals perceive their responsibilities and carry out their duties. Culture has also been recognised as a likely determinant of accounting (Gray, 1988; Perera, 1989). If culture influences accounting, then so surely does religion, if only because religion affects cultural values (Hamid *et al.*, 1993; Lewis, 2001).

It has been argued (Cone, 2003), that the Islamic understanding of corporate responsibility shares some fundamental similarities with the Rawlsian concept of social justice, as mutual agreement among equals motivated by self-interest. All parties must be fully aware of the risks attendant on a particular course of action and be accepting of equal liability for the outcomes, good or bad.

Although it is difficult to find a Muslim majority country in which the true teachings of Islam are implemented in every aspect, in the Qur'an, Islam's primary authority in all matters of individual and communal life, as well as theology and worship, and in the teachings and example of the Prophet Muhammad (pbuh)[1], preserved in a literary form known as *hadith*, there is much with which to construct an authentic Islamic doctrine for Corporate Social Responsibility. It is these aspects of Islamic law, *Shari'ah*, that are the focus of this section.

The Origins of the Shari'ah

Muslims refer to the last phase of pre-Islamic Arabia as the time of ignorance (*jahiliyah*). The Meccan tribe of Quraysh had become the era's nouveau riche because it controlled access to Arabia's most important shrine, the Ka'aba. The populace had become spiritually desolate and enjoyed little in the way of physical or social security. Their longing for a divine revelation was fulfilled in 610 A.D. when Muhammad, a respected merchant already so renowned for his personal integrity that he was known to all as *al amin* (the trustworthy), felt himself enveloped by a divine presence.

The *Shari'ah*, wherein Muslim ethics are anchored, has four sources: ***a)*** the **Qur'an,** which expresses the work and will of God; ***b)*** the **Sunnah,** which is the body of customs and practices based on the words and deeds of Muhammad and elaborated on by scholars; ***c)*** **Islamic law,** which draws on the first two sources and is solidified by consensus; and ***d)*** an individual's own **conscience** when the path has not been clarified by the first three sources. As a result, the Shari'ah addresses all questions facing society and individuals. Also, interpretive jurisprudence (*ijtihad*) and deduction by analogy (*qiyas*) provide mechanisms for meeting the challenges of different periods.

The Qur'an, like the divine scriptures that preceded it, forbade lying, stealing, adultery, and murder. It also went one step further by providing a new perspective in the form of rules for such fundamental societal institutions as marriage, kinship, inheritance, warfare, and economic activity. It also focused on commerce and politics, interest and debts, contracts and wills, and industry and finance. Every act that, would estrange righteousness and bring evil, whether it benefits the perpetrator or not, is forbidden. The Qur'an is quite explicit in this regard: *"it is immoral to acquire possession of income or wealth by stealing, cheating, dishonesty, or fraud."*

The laws developed by the Islamic legists drew on the concrete obligations declared in the Qur'an and supplemented by the recorded recollections of the sayings (*hadith*) and deeds of the Prophet. The Shari'ah, as such, has remained unsurpassed as a statement of social justice and ethical principle. (Pomeranz, 2002) Although its importance is primarily spiritual and moral, some of its aspects have been written into the civil law in numerous countries. Moreover, there is a current tendency to move towards an Islamic economic system in some Islamic nations and to restore the Shari'ah as the basic source of legislation. There are currently 38 Muslim states, 4 of which (Afghanistan, Iran, Saudi Arabia, and Sudan) have the Shari'ah as their primary law. In another 23 countries, such as Egypt, the Shari'ah influences civil law, and in the remaining 11 it has no influence al all.

5.2.2 Business Ethics

Business ethics, as far from being a contradiction in terms, has become an ever increasingly important area of managerial competence and responsibility (Green, 1994). The reason is that lack of information can lead to poor decisions while moral reasoning skills can be powerful tools in long-range planning (Cooke, 1990)

Ethics seeks to develop reasonable standards of moral conduct that are universal (Cooke, 1990). After general types of behaviour have been identified as intrinsically right or wrong, a right action can then be classified based on its conformance to the set of moral rules. This approach is called deontology; the word is derived from the Greek and places emphasis on duties. Deontologists base their judgements on a set of "moral rights" people are believed to possess; in other words, any individual has a right to be treated in ways that ensure his dignity, respect, and autonomy.

Two operational models emerge: ***The Golden Rule Model***, derived from the New Testament, states that one should treat other people in the same way he/she would want to be treated. The rights driven or ***Kantian Model***, named for Immanuel Kant, rests on the assumption that every person has basic rights in a moral universe; accordingly, an action is morally correct if it minimizes the violation of the rights of all stakeholders. Neutral omni partial rule making (***NORM***) represents a third approach, proposed by Ronald Green, a prominent ethicist. According to Green, deeming an action morally right involves the judgment that it is a kind of conduct members of society would be aware of and would accept, i.e. moral principles should represent the result of free consensus.

Ethical teachings of most religions are largely compatible with each other and with secular views. Religious imperatives on ethics reflect a steady evolution: God revealed the truth of monotheism through Abraham, the Ten Commandments were revealed to Moses, Jesus taught that we are to love our neighbours as ourselves, and Muhammad explained how we were to love that neighbour. In the Qur'an, however, a new perspective was added. Muhammad was a successful businessman. Consequently, the Qur'an includes rules not only for manners and hygiene, and marriage and divorce, but also for commerce and politics, interest and debts, contracts and wills, and industry and finance. Islamic law represents the sum of duties required by God of human beings with respect not only to God, but also to one's fellows. It is the infusion of divine purpose into human relationships that distinguishes Islamic law from the secular jurisprudence found in most developed countries (Kennedy, 1993).

Islamic Business Ethics

Islam supports private property and competition but remains firm on the goal of achieving an equitable distribution of wealth. It seeks to promote such a distribution by urging the rich to help the needy. Wealth is believed to belong to God, who has entrusted the individual only with spreading its positive effects. Islam stresses the sharing of wealth among fellow Muslims and fairness in such matters as management-labour relations. The accumulation of idle wealth is penalized through the obligatory giving of a predetermined part of one's wealth (*zakat*) and by encouraging rapid reinvestment, especially in projects designed to increase employment. Wasteful consumption (*israf*) is discouraged, while avoiding waste and saving wealth for the purpose of direct investment (*istithmar*) are encouraged. Islamic doctrine includes an elaborate mechanism for securing minority rights, for Muhammad is reported to have recognized the need for pluralism and tolerance. Islam even calls on its followers to rationalize the use of natural resources and to protect the environment. In fact, of more than 6,000 verses in the Holy Qur'an, some 750, one eighth of the Book, exhort believers to reflect on nature, to study the relationship between living organisms and their environment, to make the best use of reason and to maintain the balance and proportion God has built into His creation. The earth's resources land, water, air, minerals, forests are available for humanity's use, but these gifts come from God with certain ethical restraints imposed on them. We may use them to meet our needs, but only in a way that does not upset ecological balance and that does not compromise the ability of future generations to meet their needs.

Islam holds that man's life is given significance by the promise of eternal bliss for those who have qualified for such a reward by having followed God's commands (Endress, 1998). Muslims express their faith in life after death-a prior appointment on Judgment Day, but an eternal life in Paradise (Fisk, 1996). In other words, each soul will be judged for the moral and ethical choices made on earth by that individual; his happiness or misery in the hereafter depend on how well he has observed God's laws (Smith, 1986) and exercised responsibility.

The Holy Qur'an designates the Muslim community as witness before God, as well as mankind, in regard to the espousal of justice:

> Ye who believe! Stand out firmly for justice, as witnesses to God. Even as against yourselves, or your parents or your kin, and whether it be (against) rich or poor: For God can best protect both (4:135)

Just as the religion of Islam requires individuals to adore God, so too do the social system and the ethics of Islam regulate the corporate or organisational life of individuals: it is made clear that each person is responsible for his actions (Endress, 1988).

As might be expected, the Qur'an deals with economic crimes and potential crime in rather broad terms, and not in specifics. Thus, the Qur'an refers to fraud, and other violations of prescribed ethical conduct, vis-à-vis contracts and trusts. Below, are a few examples of Qur'anic prescriptions, which can be applied to different categories of transgressions.

- **Contracts**

> *Ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties (2:282)*

- **Trusts**

  Allah doth command you to render back your trusts to those to whom they are due; And when ye judge between people that ye judge with justice: (4:58)

  Ye that believe! Betray not that trust of Allah and the Messenger, nor misappropriate knowingly things entrusted to you. (8:27)

- **Fraud**

  Woe to those that deal in fraud. Those who, when they have to receive by measure from men, exact full measure, but when they have to give by measure or weight to men give less than due. (83:1-3)

While Qur'anic prescriptions may be vague, the legacy of Prophet Muhammad is very specific. Throughout his life, Muhammad is said to have allowed his actions to speak for themselves. For example, al Tin ilidhi, whose writings are an important source of Islamic law, relates the following story:

> The Prophet passed a pile of grain. He put his hand into its midst and felt moisture. He exclaimed: "Oh merchant, what is this?' The owner of the grain responded: "It has been damaged by the rain, oh Prophet Muhammad." The Prophet asked: ' If this is the case, why did you not put the damaged grain on top of the pile so that people can see it?' The Prophet concluded by making clear that "whoever practices fraud is not one of us".

A Model of Islamic Corporate Citizenship

Muslims see Islam as the religion of trade and business, making no distinction between men and women and seeing no contradiction between profit and moral acts. Evidence for this can be found in the fact that only a small portion of the Qur'an is devoted to matters of theology. The bulk of the Holy Book has to do with rules of conduct, both social and economic. All actions are judged according to their congruence with the guide to living found in the Qur'an.

The Qur'an contains numerous references to economic practice, including the right to private property, as one of the principles on which the Islamic economic system is built. This right is protected as long as the means of acquisition is lawful. There are references to unlawful means of acquiring wealth, including usury (2: 278-79), cheating (9: 3), gambling and chance (5: 91-92) and theft (5: 38). However, the right of possession, given its lawful nature, is not absolute, since Allah is seen as the ultimate owner of all wealth (6: 165; 57: 7).

Given these antecedents it is no surprise that Ernest Gellner, a long-time researcher and scholar of Islam, suggests that Islam is the ideal social model for commercial activity. He writes (1992: 14):

> Weberian sociology leads us to expect certain congruence between a modern economy and its associated beliefs and culture. The modern mode of production is claimed above all to be rational. It is orderly, sensitive to cost effectiveness, thrifty rather than addicted to display, much given to a division of labor and the use of the free market. It requires those who operate it to be sensitive to the notion of obligation and contract, to be work oriented, disciplined and not addicted to economically irrelevant political and religious patronage networks. If this is indeed what a modern economy demands and above all if it is *required* by the construction of a modern economy, Islam would seem to be custom made.

Muslims ought to conduct their business activities in accordance with the requirements of their religion to be fair, honest and just toward others. Rahman (1994) notes that there are a large number of Islamic concepts and values that define the extent and nature of business activity. There are many positive values, such as *iqtisad* (moderation), *adl* (justice), *ihsan* (kindness), *amana* (honesty), *infaq* (spending to meet social obligations), *sabr* (patience) and *istislah* (public interest). Similarly, there are a number of values that are negative, and thus to be avoided: *zulm* (tyranny), *bukhl* (miserliness), *tam' and gash'* (greed), *iktinaz* (hoarding of wealth) and *israf* (extravagance). Economic activity within the positive parameters is *halal* (allowed and praiseworthy) and within the negative realm *haram* (prohibited and blameworthy). Production and distribution, which are regulated by the *halal-haram* code, must adhere to the concept of *adl* (justice). Collectively, these values and concepts, along with the main injunctions of the Holy Qur'an, provide a framework for an equitable business and commercial system (Lewis, 2001)

5.2.3 Islam, Accounting and Accountability

Due, in part, to the increased activity in Islamic banking worldwide, one of the most widely known tenets of Islamic economics is the prohibition on the paying or receiving of interest. In lieu of interest, depositors in an Islamic bank would be treated like shareholders, i.e. receive dividends when the bank makes a profit, and lose capital when it suffers a loss. The prohibition on fixed interest flows from Islam's concern for social justice. Interest is argued to reinforce a tendency for wealth to accumulate in a few hands, to guarantee gain without the risk or loss, and to hamper investment and employment.

In an Islamic society, the development of accounting theory should be based on the provisions of Islamic law along with other necessary principles and postulates that are not in conflict with Islamic law. Two approaches have been suggested:

- Establish objectives based on the spirit of Islam and its teachings and then consider these established objectives in relation to contemporary accounting thought.
- Start with objectives established in contemporary accounting thought, test them against Islamic Shari'ah, accept those that are consistent with Shari'ah and reject those that are not.

Practitioners and professional bodies, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2000) have followed the second approach when formulating accounting, auditing and governance standards for Islamic financial institutions. Academics, on the other hand, such as Gambling and Karim (1986), Adnan and Gaffikin (1997), Askary and Clarke (1997), Alam (1997), Baydoun and Willett (1997) and Lewis (2001), have tended to favour the first approach.

Certain Islamic ethical principles have a direct impact on accounting policy and principles. These principles include not only the interest-free economic system, but also the institution of *zakat* (religious levy) and specific business methods of full disclosure and bookkeeping discussed in detail in the following section.

Social Responsibility

In Islamic thought, individuals and organisations are expected to feel socially responsible for others in the community. One cannot enjoy life while others are not. In general, the aim of the Islamic economic system is to allow people to earn their living in a fair and profitable way without exploitation of others, so that the whole of society may benefit. Islam also emphasizes the welfare of the community over individual rights. Where Muslims live under a non-Islamic government, *zakat* must still be collected from Muslims and spent for the good of society.

Islam also preaches moderation and a balanced pattern of consumption. Luxury and over-consumption is condemned, as is poverty. Every being has a minimum requirement to be able to live in dignity. The system is balanced out through the act of *zakat*, which is an essential part of the economic system, as well as an individual's faith. If this source were not enough, an Islamic government would apply a temporary tax on the rich and affluent as a religious duty (*fard kefaya*), in order to balance the budget.

Social Accountability

In the Holy Qur'an, the word *hesab* is repeated more than eight times in different versus (Askary and Clarke, 1997). *Hesab* or account is the root of accounting, and the references in the Holy Qur'an are to 'account' in its generic sense, relating to one's obligation to 'account' to God on all matters pertaining to human endeavour for which every Muslim is 'accountable'. All resources made available to individuals are made so in the form of a trust. Individuals are trustees for what they have been given by God in the form of goods, property and less tangible 'assets', such as good health and even time. The extent to which individuals must use what is being entrusted to them is specified in the *Shari' ah*, and the success of individuals in the hereafter depends upon their performance in this world. In this sense, every Muslim has an 'account' with God, in which is recorded all good and bad actions, an account which will continue until death, for God shows all people their accounts on judgment day (4:62). This adds an extra dimension to valuation of things and deeds compared to those already embodied in conventional financial statements (Lewis, 2001).

Thus, the basic similarity between *hesab* in Islam and 'accounting' lies in the responsibility of every Muslim to carry out duties as described in the Qur'an. Similarly, in a business enterprise, both management and the providers of capital (institutional as well as individual) are accountable for their actions both within and outside their firm. Accountability, in this context, means accountability to the community (*umma*) or society at large. Many of the conventional accounting practices, which are most applicable to the concept of private accountability, do not seem to be relevant to the type of accountability required under

Shari'ah. One of the main objectives of Islamic accounting is to provide information which discharges those involved in firms from their accountability to the *umma* (Lewis, 2001).

Full Disclosure

Related to the concept of social accountability in Islam is the principle of full disclosure. Six verses in the Qur'an refer to '*relevance*'. One meaning of the '*relevance*' referred to is disclosure of all facts (Qur'an, 2:71) '*...now you have brought the truth...*' also '*be maintainers of justice*' (Qur'an, 4:135). Financial information is relevant from an Islamic point of view only when it includes the attribute of '*truth*' – fair and accurate disclosure of the matters at hand (Lewis, 2001).

Therefore, if the purpose of accounting information is to serve the public interest, it follows that, in an Islamic context, the *umma* has the right to know about the effects of the operations of the organisation on its well being and to be advised within the requirements of *Shari'ah* as to how this has been achieved. Accountability is, thus, interpreted as being, first and foremost, accountability to God through making information freely available. Truthful and relevant disclosure of information is important, in different aspects of Islamic life. There are responsibilities such as paying *zakat*, the calculation of which requires disclosure of the value of assets and liabilities in terms of the religious obligation to aid the poor, for it indicates a Muslim's capacity to do so. Full disclosure is necessary for predicting future obligations and assessing investment risk in Islamic partnership arrangements. Considerable doubt must arise as to whether compliance with conventional accounting practice of being 'conservative' regarding asset valuation and income measurement can conform with *Shari'ah*, any more than would deliberate optimism and overstatement.

Materiality

Adequate disclosure requires that a financial statement should contain all material information necessary to make it useful to its users, whether it is included in the statement itself, the notes that accompany it, or in additional presentations. Since the Holy Qur'an '*discloses the truth and best way for living in the world*' (Qur'an 5:16), so the disclosure of all necessary information for the accomplishment of faithful obligations and the making of economic and business decisions consistent with that ethos, is the most important tenet of an Islamic accounting system (Lewis, 2001). Verses 282 and 283, in the second chapter of the Qur'an, put particular emphasis on commercial morality with regards to the evidence to be provided and doubt to be avoided. Understandability is a precondition of financial information in an Islamic accounting framework. Information is not to deceive the user, nor decrease understanding in such a way as to mislead decision-making.

Verifiability

Muslims are required to keep records of their indebtedness. In this regard, the Qur'an reads:

> 'Believers, when you contract a debt for a fixed period, put it in writing. Let a scribe write it down fairly... and let the debtor dictate, not diminishing the sum he owes...' (Qur'an, 2:282).

Islam, thus, provides general approval and guidelines for the recording and reporting of financial transactions. Underpinning Islamic belief is the requirement that doubt and uncertainty be removed from interpersonal relationships. In business affairs, it is clear that all parties' rights and obligations are to be documented for verification and exploration. Other Qur'anic verses advise credit transactions to be recorded as well as signed by debtors to acknowledge their indebtedness and the amount thereof, the ultimate in verification processes (Lewis, 2001).

Reliability

Askary and Clarke (1997) identified nineteen versus, in eleven different chapters of the Qur'an, which place emphasis on the reliability of matter. If published financial information is unreliable, Muslims will be unable to fulfil their religious responsibilities, such as assessing their ability to assist the disadvantaged and pay *zakat*. In addition to other verses that emphasise the need to fulfil obligations, verse 58 in chapter four deals explicitly with the need for managers of business entities to produce true, accurate, complete and reliable financial disclosure to the owners of capital. Reliable information must also be presented correctly and completely, including all the details of transactions undertaken. True disclosure of financial facts, and their provision without any deceit or fraud, in order to satisfy users' requirements, is therefore, essential in fulfilling obligations and facilitating investment decision-making. Qur'anic verses 84 and 85 in chapter 11 emphasise this by stating *"....give full measure..."*.

Summary

Accounting theory, like Islamic life in general, is concerned with accountability. Property and resources, as well as time, effort and talent, are held in trust from God, to whom one must ultimately account as to how they have been employed. The first duty of a Muslim is to serve God in all aspects of life, as Islam does not recognise a division between sacred and secular activities. Trade and commerce in general and accounting in particular, if performed in accordance with *Shari'ah*, become as much an act of worship as prayer. Islamic doctrine guides Muslims through divine revelations that govern all social, economic and political activities, without exception. As Gambling and Karim (1994) conclude:

> "Islam has its own cohesive rules which dictate how business should be run. These rules can be applied at any time and in any culture." (p. 104)

The *Shari'ah* has echoed throughout the past fourteen hundred years as a doctrine of ethics. Its continuing vitality is illustrated in the words of the late Rafiq al Hariri, who served for several years as the businessman-prime minister of Lebanon. He attributed his successes as a businessman and a statesman to his observance of Islamic moral and ethical precepts: "I cannot imagine life without principle or law. Nothing can go on without a basis of religion, law, principles, and morals." Islam, in its purest form, is much more than a faith: it is an indivisible unit, a political system, a legal system, an economic system and a way of life. The economy, like other activities, is governed by moral rules and mechanisms designed to achieve progress through the ideal use of resources and the protection of human values.

5.2.4 Islamic Environmental Ethics

The Qur'an tells of an offer of global trusteeship that was presented by God to the Heavens, the Earth, and the Mountains (33:72), but they refused to shoulder the responsibility out of fear. Humankind seized the opportunity and bore the "*amana*" (trust), but they were "unjust and very ignorant." Even so, God through mercy has guided and enabled mankind in bearing the responsibility of the *amana.* Although it has, in the process, also been subjected to punishment for its hypocrisy and scepticism. The Qur'an, however, is clear that God is the ultimate holder of dominion over creation (e.g., 2:107, 5:120), and that all things return to Him (24:42) and are thus accountable each in their own ways.

The Guardian of Planet Earth

In Islamic thought, it is believed that Adam, the progenitor of the human race and Islamic prophet-was appointed *khalifa* or guardian of the planet Earth. By extension, every man and woman has inherited the power and responsibility in relation to the planet and all its life forms. *"We have honoured the children of Adam and carried them on land and sea, and* *provided them with good things, and preferred them greatly over many of those we created"* (17:70).

A *khalifa* is one who inherits a position, a power, a trust, and who holds it responsibly and in harmony with its bestower - in this case, God. He does not violate the trust. The verbal root of *khalifa* is *khalaf*, which means, "He came after, followed, succeeded". Ironically, it can also mean, "despite, be at variance with, offend against, violate or break a rule, command or promise. This is significant in light of the angel's prediction:

> *And lo! Your Sustainer said to the angels: Behold, I am about to establish upon earth a khalifa. They said: Will you place on it such as will spread corruption and shed blood whereas it is we who extol your limitless glory, and praise you, and hallow thy name? Allah answered: Verily, I know that which you do not know* (2:30).

Of the nine times the word *khalifa* and its plural are found in the Qur'an; seven times it is used in conjunction with the prefixed *fi'-al-ard-* "on earth" or "on this planet". In each case, it refers to a person, people, or mankind in general, to whom God has entrusted part of His power on earth. The term has been variously translated into English as a successor, deputy, viceroy, and trustee or steward (Lubis, 2000).

In light of this, it is not surprising that in Islamic thought, the human race is thought of as more than just a friend of the earth but rather, its guardian. Although we are equal partners with everything else in the natural world, we have added responsibilities. In this context, a concept unique to man is *amana* or trust. Allah offers *amana* to the heavens, to the earth, to the mountains - to the rest of creation - but they all refused; only mankind was foolish enough to accept it.

> *"Verily, We did offer the amana to the heavens, and the earth, and the mountains; but they refused to bear it, yet man took it - for, verily, he has always been prone to tyranny and foolishness"* (33:72).

A trust entails one who entrusts and a trustee. God offered the trust to man, the trustee, and he accepted the responsibility. Man accepted the *amana* by choice and relative free will - and gained thereby the capacity to live for good or evil. As *khalifa* on earth, man must fulfil that trust placed on him by God, by acting justly in accordance with God's laws, or be false to that trust and perpetuate tyranny and injustice against God's earth and His creation.

> *"For He it is who has made you khalifa on earth, and has raised some of you by degrees above others, so that He might try you by means of what He has bestowed on you. And thereupon We made you Their khalifa on earth, so that We might behold how you act* (6:165).

This is confirmed by part of a hadith, in which Prophet Muhammad is reported to have said: *The world is sweet and green, and verily Allah has installed you as khalifa on it in order to see how you act.*

With respect to humankind's stewardship of the earth, the privilege entails a profound responsibility. Other living species are also considered by the Qur'an to be "peoples or communities" (*ummas*; 6:38). The Prophet is reported to have said: *All creatures are God's dependents and the most beloved to God, among them, is he who does good to God's dependents.*

History of the Environmental Crisis in the Qur'an

The Qur'an paints a picture of a *khalifa* who is a trustee on earth and is responsible and accountable for his conduct towards his fellow humans, creatures, and the Earth itself. His purpose is to serve and worship God, by acting in harmony with God's laws, thereby fulfilling His trust and gaining His pleasure. If he abuses his God-given power and violates the laws of Allah, he brings about his own destruction, and severe loss in the Hereafter.

The consequence of violating the trust is attested to in the Qur'an by the frequent recounting of the histories of the people of 'Ad and Thamud. Both were powerful tribes in their respective times and lands: 'Ad was *"endowed abundantly with power"* and Thamud were *"settled firmly on earth"* - but they arrogantly abused the power given to them by God, and were destroyed by an environmental cataclysm. The parallels between their stories and contemporary man - truly endowed with devastating power and so firmly settled on earth – are quite apparent.

Resource Use in Islam

As a social creature, man has biological and ecological needs for the sun, water, food, shelter and community, and he, as with other living creatures on earth, may utilise the earth's resources to secure those basic necessities. Clearly there is a potential conflict of interest between spiritual and material, man and nature, man and man. In this regard, God has reminded humans of the balance:

> *"The All-Merciful has taught the Qur'an. He created man and He taught him the explanation. The sun and the moon to a reckoning, and the stars and trees bow themselves; and heaven - He raised it up and set the balance. Transgress not in the balance, and weigh with justice, and skimp not in the balance. And earth - He set it*

down for all beings, therein fruits and palm trees with sheaths, and grain in the blade, and fragrant herbs. Which of your Lord's bounties will you deny?" (55:1-12).

It is a test of the *amana* that humankind passes on to future generations these resources. There is no Qur'anic sanction of the use by one group of people over another, so that no power may usurp the resources of the Earth for its own sole use. All peoples, as well as all other creatures on the planet, have an equal right to benefit from these resources. Similarly, all future generations have an equal right to God's bounty. The use of the earth's resources ought to be in accordance with our material and spiritual needs, the needs of all other creatures, now and in the future, so that we do not jeopardise the planet itself. These and other basic tenants of sustainable development can be found in the teachings of Islam. *"And you devour the inheritance (of others) with devouring greed*" (89: 19). There is a price to pay for this misdemeanour. Prophet Muhammad is reported to have said: *If any one deprives an heir of his inheritance, Allah will deprive him of his inheritance in Paradise on the Day of Resurrection.*

In contrast to the basic human instinct to want and hoard, Islam preaches moderation, balance, and preservation. On moderation in all things the Qur'an reads: *"And We have willed you to be a community of the middle path"* (2:143). *"For, the true servants of the Most Gracious are they who ... whenever they spend are neither wasteful nor niggardly, but remember that there is always a just mean between these two extremes"* (25:63).

In another hadith, Prophet Muhammad urged the active pursuit of moderation: *Practice moderation, and if you can't practice it perfectly, then strive towards it as far as possible.* Thus, ideally, all our actions should be guided with the spirit of moderation: from consumption and production, to the use of natural resources. For moderation is balance, and it's opposite disturbs this balance: *"And the sky has He raised high, and has devised (for all things) a balance, so that you (too, O men) might never transgress the balance: weigh, therefore, (your deeds) with equity, and do not upset the balance!* (55:7-9). These principles of moderation, balance and conservation, are the core of sustainable living as it provides the framework for discernment, without which there are no limits to wasteful extravagance, affluence and greed.

Islam and Nature

Over the centuries, Muslim scholars have developed legislation regarding animal rights, bodies of water, forests, wildlife, land use, city growth, overgrazing and other aspects of Earth's finite resources and their management. Islamic law requires the establishment of areas within which development is prohibited to safeguard natural resources. These areas could border canals, wells and rivers, to protect aquifers and water from pollution. Responsible grazing is fundamental to Islamic environmental law. Pasture, woodland, wildlife and forests cannot be privately owned or monopolized. They are public property, to be managed by the state for the common good of all.

As mentioned previously, the Qur'an and the sayings of Prophet Muhammad form the legislative basis of Islamic law. In the sayings and practices of Prophet Muhammad, Muslims find the embodiment of Qur'anic guidance. Of reforestation and land reclamation, for example, Muhammad is reported to have said:

> *"Whoever plants a tree and diligently looks after it until it matures and bears fruit is rewarded."*
>
> *"If a Muslim plants a tree or sows a field and men and beasts and birds eat from it, all of it is charity on his part.'*
>
> *"Whoever brings dead land to life, that is, cultivates wasteland, for him is a reward therein"*

"When doomsday comes, if someone has a palm shoot in his hand he should plant it."

The world now is undoubtedly more complex than it was fourteen hundred years ago when the industrial revolution had not yet taken place and the earth's resources had not yet been strained. Some Islamic environmental laws formulated at the height of Muslim civilization may now appear inadequate and simplistic. Modern Islamic scholars must illuminate the ecological principles of the Qur'an as they apply to contemporary environmental issues. "*Corruption has appeared on land and sea as an outcome of what men's hands have wrought: and so He will let them taste the evil of some of their doings, so that they might return to the right path.* " states Qur'anic verse (30:41), implying that destruction of the natural environment follows from immoral and unethical use of natural resources.

God created humans as part of His original creation to function within its primordial pattern. Humanity is then inescapably subject to God's immutable laws, as is the rest of creation. In this sense, human beings are equal partners with nature. Creation cannot be changed. Where there is an action there is a reaction, one according to God's laws. Global warming has been argued, in this light, as the earth's endeavour to maintain a balance in response to the human assault against it (Lubis, 2000).

Creation itself, in all its myriad diversity and complexity, is thought of in Islam as a vast universe of "signs" of God's power, wisdom, beneficence, and majesty. The whole of creation praises God by its very being (59:24; 64:1).

> *"With Him are the keys (to the treasures) of the Unseen that no one knows but He. He knows whatever there is on the earth and in the sea. Not a leaf falls but with His knowledge: there is not a grain in the earth's shadows, not a thing, freshly green or withered, but it is (inscribed) in a clear record"* (6:59).

According to the Qur'an, the creation of the cosmos is a greater reality than the creation of humankind (40:57), but human beings have been privileged to occupy a position even higher than the angels as vice regents of God on Earth. Even so, they share with all animals an origin in the common substance, water (24:45), and they will return to the earth from which they came. Islam understands the earth to be subservient to humankind but it should not be administered and exploited irresponsibly. There is a strong sense of the goodness and purity of the earth. Clean dust may be used for abolutions before prayer if clean water is not available. The Prophet Muhammad is attributed with saying: *The earth has been created for me as a mosque and as a means of purification.* There is a sacrality to the earth which is a fit place for human's service of God, whether in formal religious ceremonies or in daily life.

Muslims envision heaven as a beautiful garden, which the Qur'an describes in many places. If life on earth were preparation for eternal life in heaven, then the loving care of the natural environment would seem to be appropriate training for the afterlife in the company of God and the angels in an environment that is perfectly balanced, peaceful, and verdant. Muslims believe that all generations will be gathered together at the Last Judgment and that in heaven the saved will enjoy the company of generations of faithful Muslims who have been rewarded with a blessed afterlife. Whether one plants a palm shoot as the end is closing in or invests in an environmentally sound way of life for the sake of her/his posterity, it comes to the same thing: serving God through a stewardship that reflects what the Qur'an throughout sets forth as God's generosity, mercy, and guidance in the first place.

> *"Do you not observe that God sends down rain from the sky, so that in the morning the earth becomes green?"* (22:63).

The colour green is the most blessed of all colours for Muslims and, together with a profound sense of the value of nature as God's perfect and most fruitful plan, provides a charter for a green movement that could become the greatest exertion yet known in Islamic history, a "green *jihad*" appropriate for addressing the global environmental crisis. (Afshari, 1994)

The Islamic Order of Creation

> *"God has created the world and the universe perfect in proportion, measure and balance as a life-supporting system.* (67:3,4). *All the elements in the universe are interdependent and connected, and have a value to each other, over and above their value to humans; for humans need the earth in order to exist, but the earth has no need for humans* (40:57). *Indeed the earth and what it contains is a means of subsistence for all creatures, not only for humans"* (15:19,20).

These verses stress the fact that each single element in the environment plays an essential part in the maintenance, sustenance and preservation of the whole. In other words, the function of all created things is to serve creation itself, i.e. all created things have an ecological function. A further function of creation is to service humans. *God has passed the whole of creation to humans by virtue of the trust placed on them* (45:13). In summary, all creation has a hierarchical function or value: An inherent value as things-in-themselves; an ecological value as integral parts of the whole; a utilisation value to humans.

The whole of creation - being the work of one Originator - works within a defined pattern. Another verse in the Qur'an refers to the heavens and the earth as extensions of God's throne, thus conveying the idea that creation was designed to function as a whole. Each of its complementary parts, including humankind, plays its own self-preserving role, and in so doing supports the rest.

Animals

Islam also advocated animal rights, centuries before it became popular in secular societies. In Islamic belief, humans have certain obligations towards other living creatures. Mankind will be held accountable on the Day of Judgement for its treatment of these creatures. The owner of an animal is obliged to feed it and to treat it if it is ill. Prophet Muhammad is reported to have said: *"Allah punished a woman because she imprisoned a cat until it died of hunger. She neither fed it, nor let it obtain its own food"*.

It is obviously wrong for anyone to over-burden and mistreat an animal and cause it unnecessary pain in this blatant manner. However, Islam prescribes that one cannot even milk an animal at a time or in a way that would damage it's young, as the milk rightly belongs to the young animal. Before a Muslim milks a cow, he is expected to cut his nails so that he does not unwittingly hurt her. Likewise, when honey is taken from a beehive, enough should be left for the bee's own use.

Animal rights extend beyond mere physical protection in Islam. Cursing an animal is also frowned upon. In this vein, it is reported that Prophet Muhammad, while travelling, overheard a woman cursing a female camel. He reprimanded her, saying, "*Leave it alone and spare it from your curses*".

Summary

Few know that Qur'anic verses describing nature and natural phenomena outnumber verses dealing with commandments and sacraments. In fact, of more than 6,000 verses in the Holy Qur'an, some 750, one eighth of the Book, exhort believers to reflect on nature, to study the relationship between living organisms and their environment, to make the best use of reason and to maintain the balance and proportion God has built into His creation. The earth's resources land, water, air, minerals, forests are available for humanity's use, but these gifts come from God with certain ethical restraints imposed on them. We may use them to meet our needs, but only in a way that does not upset ecological balance and that does not compromise the ability of future generations to meet their needs.

Thus, not knowing about stewardship and accountability, Qur'anic teachings have been reduced to narrow definitions of crime and punishment. The Islamic approach to the environment is holistic. Everything in creation is linked to everything else; whatever affects one thing ultimately affects everything. Man was created from the essence of nature and so is inextricably bound to it.

Because of its ability to reason and think, humanity has been made the trustee or steward of God on earth. Nature is created on the principle of balance, and as a steward of God, it is humanity's responsibility to ensure that our actions do not disrupt this balance. Stewardship does not imply superiority over other living beings: because ownership belongs to God alone, stewardship invests humans with a moral responsibility in safeguarding God's creation.

Stewardship requires that humans learn to live in harmony with, rather than work against nature. That is why reflecting on nature and understanding its inner workings has been made the fundamental basis of knowledge in Islam. Man can detect God's "signs" in all the natural phenomena that surround him and should, therefore, observe them better to understand "God's way," which is the Qur'anic term for "laws of nature". Thus *"in the succession of night and day"*, *"in the water that comes down from the sky, giving life to the earth after it had been lifeless," "in the change of the winds," "in the mountains towering above the earth", "in the* *hives of the bees and the flight of the birds,* " "*in the wonder of the seed,*" "*in the springs that gush forth from within the earth*", and numerous other Qur'anic verses, God reminds humankind that there are "*messages for those who reason and think* ".

Every created thing has inherent values, an ecological value, and a utilisation value for humankind both as spiritual sustenance and material resource. Humankind's rights over nature are rights of sustainable use based on moderation, balance, and conservation; future generations have a similar and equal right. Nature's rights over mankind include the rights to protection from misuse, degradation and destruction. Greed, affluence, extravagance, and waste are considered tyranny against nature and a transgression of those rights. The Qur'an teaches that human need cannot justify transgressing the legitimate needs of other species. Man is dependent on a world he did not create, and therefore has no right to destroy. In the web of life, the smallest organism counts. "Mastery of nature", with its implied one-sided benefits for man, is a concept foreign to Islam. Inherent in Qur'anic teaching is the notion that ecology is farsighted economics, that in the deepest sense, ecology is religion (Denny *et al.*, 1998b).

Islam, in its purest form, is much more than a faith: it is an indivisible unit, a political system, a legal system, an economic system and a way of life. The economy, like other activities, is governed by moral rules and mechanisms designed to achieve progress through the ideal use of resources and the protection of human values. Although it is not easy to locate societies where Islamic values, morals and ethical principles are truly implemented in every sphere of life, as dictated by the Qur'an and Sunna, this does not nullify the validity of the model itself. The desire for such a model has always been, and will always exist in both Islamic and non-Islamic societies. Empirical studies investigating how far the affairs of businesses in Muslim majority societies actually fit with the prescribed model could be quite revealing and hence, worthy of pursuing.

5.3 Economic Overview

5.3.1 Economic Policies

In 1991, the Egyptian government commenced an economic reform program the objectives of which were macroeconomic stability, financial sector reform and the reduction of price distortions and obstacles to foreign trade. Key elements of the program have been the introduction of a privatisation program, the gradual replacement of central planning by market economics, the gradual reduction of government spending on subsidies, the deregulation of interest rates and foreign exchange, the introduction of Capital Market Law and trade liberalisation.

The government endorsed privatisation of state enterprises, a key component of IMF-administrated structural adjustment, as a policy goal early in the previous decade. Actual sell-offs of parastatals started slowly, prompting criticism from the IMF and other international funding bodies. Since 1996, Egypt's privatisation program has gained momentum, with positive impact on both public finances and overall efficiency. Between 25 and 32 full or partial privatisation tenders were offered each year during the 1996 – 1999 period, with the highest total of receipts to the treasury coming from 28 transactions in 1997. There were 13 privatisations in the first half of 2000 as well as a phased 49 percent divestment of Egypt Telecom later in the year. Foreign equity participation in newly privatised companies and other joint stock ventures has brought fresh dynamism to Egypt's economy. Several hundred foreign-based firms now have branches in the country (Ministry of Public Enterprise, 2001).

This program, which has received support from the IMF and the World Bank, has resulted in an improvement in Egypt's external balance of payments. After registering deficits on both trade and current accounts through the 1980s, the current account has improved since 1990, owing primarily to high receipts from invisibles, a reduction in debt service costs, and large net transfers. According to the IMF, foreign currency reserves increased from U.S.$2.7 billion in 1990 to U.S.$16 billion in 1995 and U.S.$20.3 billion in 1997.

IMF figures show that official GDP growth has averaged 3.8% over the last six years and that the budget deficit as a percentage of GDP has declined from over 17% in 1992 to 1.6% in 1996 and 0.9% in 1997. The national budget for the fiscal year ending June 30, 1997 reflects the continued tight fiscal policy. Expenditure and revenues were budgeted to rise virtually in line with inflation. The deficit for 2001 was 3.8% of GDP, financed mainly from domestic sources.

The Egyptian economic expansion peaked at 6.5 percent in fiscal year 1999/2000 before declining significantly in 2000/2001, to below five percent despite booming tourism and oil export receipts. Much of the slowdown has been attributed to monetary policy, which emphasizes maintaining low inflation and building foreign currency reserves to the exclusion of growth considerations. Egypt has suffered from a foreign currency liquidity crisis for much of the last four years as real interest rates have risen in the face of dormant price increases. Although the government addressed the issue with a gradual 13 percent devaluation of the Egyptian pound during 2000, further action was deemed necessary which eventually led to the free float of the Egyptian pound in the summer of 2003.

Consumer price inflation, which began the 1990s at over 20 percent, has fallen steadily from seven percent in 1996 to 3.8 percent in 1999. Data from the first half of 2000 show year-on-year price increases below three percent in some months. A budget deficit, which has risen to over four percent of GDP, threatens to impact price levels.

5.3.2 The Cairo and Alexandria Stock Exchanges (CASE)

Egypt's stock exchange has two locations: Cairo and Alexandria, both of which are managed by the same Chairman and Board of Directors. The Chairman is appointed by the government, whereas the Board of Directors are 60 percent from market participants and 40 percent appointed by the government i.e. representatives of the Capital Market Authority, the Central Bank of Egypt and the public banking sector. There are also four appointed non-voting members.

The Alexandria Stock Exchange was officially established in 1888, followed by Cairo in 1903. The two exchanges were very active in the 1940s when the Egyptian Stock Exchange ranked fifth in the world. Nevertheless, the central planning and socialist policies adopted in the mid 1950s, led to a drastic reduction in activity on the Stock Exchange, which remained dormant between 1961 and 1992 (CASE, 2002).

In 1990/91, the Egyptian government started its economic reform and restructuring program. The move towards a free-market economy has been remarkably swift and the process of deregulation and privatisation has stimulated activity in the stock market. Between 1992 and 1996, the Capital Market Authority (CMA) played an instrumental role in initiating and leading the effort for the revival of the Egyptian stock market. The Capital Market Law

95/1992, laid the regulatory framework within which financial intermediaries such as brokers, fund management firms, venture-capital firms and underwriters, could operate.

The principle method utilised to activate the stock market was via public offerings of state-owned enterprises, which provided the impetus for its revival. Starting 1997, the number of the issues offered increased, when private companies, such as Oriental Weavers, MobiNil, and Orascom Construction Industries, possessing sound fundamentals and growth potential, offered their shares to the market. These issues attracted both retail and institutional investors, thus positively affecting market turnover (Ministry of Public Enterprise, 2002).

The CASE gained further credibility in September 1996 when the International Finance Corporation began to include Egyptian stocks in its Global Emerging Market Investible Index. International investor confidence was also boosted when Egypt's long-term debt was awarded investment grade ratings. Egypt received yet another vote of confidence when it was included in the Morgan Stanley Capital International (MSCI) index in May 2001 due to the diversity of its investment opportunities and unrestricted foreign access to the Egyptian markets (HSBC, 2004).

By the end of June 2002, 1136 companies were listed on the stock exchange with a market capitalization of LE 118.6 billion, compared to 656 companies listed in 1992 with a market capitalization of LE 10.8 billion. The top 100 listed companies accounted for almost 93 percent of the value traded, 84 percent of the volume traded and 96 percent of the number of transactions for stocks in the first six months of 2002. The traded value of listed securities in 1997 was LE 20.2 billion versus LE 45.7 billion in 2000, a surge of 126 percent. During the first six months of 2002, the value traded on the exchange amounted to LE 13.6 billion, of which foreign participants represented approximately 21.5 percent (CASE, 2002).

5.4 Financial Reporting Framework

5.4.1 Accounting Regulations

Before the 1990's, private sector company accounting was largely unregulated, the exceptions to this being some minor guidelines included in the Egyptian Charter of the Accounting and Auditing Profession issued in 1958 and the Companies Act of 1981. In the public sector, the Uniform Accounting System of 1966 (UAS) required application of specific concepts, terms, definitions, accounting principles and standard forms.

In 1992, the Egyptian Institute of Accountants and Auditors (EIAA) completed the preparation of 20 Egyptian Standards (ES). These standards were presented and discussed in public at a number of seminars held under the supervision of the EIAA and were recommended by the institute for use in practice (Abdelsalam and Wheetman, 2003).

In 1993, the Executive Regulations (ER) of the Capital Market Law (CML) was issued. These included a statement requiring listed companies to use International Accounting Standards (IAS) in all areas not covered by the CML. All listed companies had to meet these requirements by October 1995. In 1997, a ministerial decision obliged all shareholder companies, whether listed or not, to follow the IAS.

It has been noted by several researchers (see Abdelsalam and Wheetman, 2003) that the UK Companies Act of 1948 largely influences the Egyptian Companies Act of 1954 and the Charter of the Accounting and Auditing Profession of 1958, as those who drafted the charter had been UK educated. The influence of the French Plan Compatable General may be seen in the Uniform Accounting System of 1966.

5.4.2 Disclosures and Transparency Requirements

In June 2002, the CASE passed new disclosure rules for all listed companies (see Appendix A for full requirements). All listed companies must now disclose financial and operational performance to the CMA and the CASE on a quarterly, semi-annual and annual basis. Mandatory information includes hard copies of balance sheets, income statements, directors' reports, information on any change in board composition, material events that may affect business and/or earnings, as well as the external auditor's report. The CMA examines compliance with disclosure requirements and requests more information if needed. In the event of non-compliance, the CMA will publish its observations at the company's expense. Financial statements are to be prepared in compliance with the Egyptian Accounting Standards issued by the Ministry of Economy and Foreign Trade, mentioned previously. In the absence of an Egyptian Accounting Standard for a specific issue, the relevant IAS is to be applied (Abdelsalam and Weetman, 2003).

Annual and semi-annual financial statements of public companies must be fully audited, while quarterly statements are submitted with a limited auditing report. The power of appointing and removing auditors is vested with the AGM, which also sets their remuneration. Consulting fees do not have to be disclosed at the AGM according to law No.159 of 1981, but to ensure independence, the auditor must not become a founder, board member, employee or be otherwise associated with the company or board, or elected to the board until three years after his auditing function has ceased (World Bank Report, 2001).

5.5 Internet Usage

Internet access in Egypt dates back to early 1993, mainly through governmental and educational organisations, with commercial Internet access becoming available later that same year (World Factbook, 1998). In January 1996, the government made an official address authorising private sector Internet service providers (ISPs) to own and manage their network infrastructure, with almost no restriction on internet content and commercial spreading. Since that time, with the exception of Israel, Egypt has led the MENA (Middle East and North Africa) region in the availability of Internet services (El-Nawawy, 2000).

Despite its top ranking in the region, at the time of the 2000 study, internet user penetration in the Egyptian population was under 0.4 percent. Egypt also ranked in the lower third in terms of hosts per capita globally (www.isoc.org/inet99/). The study identified awareness and education as the primary deterrent and reason for the low number of internet users in Egypt. Secondary deterrents identified by the study included telecom infrastructure, computer penetration, internet access costs, culture and/or language and individual income. However, the study was firm in its conclusion that secondary deterrents were insignificant when compared with the primary deterrent of education and awareness, which if addressed, could increase the number of internet subscribers tenfold in less than five years.

In August 2004, less than 4 years after the 2000 study, the Egyptian Ministry of Communications and Information Technology (MCIT) announced the number of internet users had exceeded 1.15 million (approximately 1.6% penetration) for the first time in Egypt's history. National distribution figures were 51% for Greater Cairo, 21% Delta region, Alexandria 12%, Upper Egypt 10% and Sinai and the Red Sea 6%. MCIT credits the increase to close collaboration between the Ministries of CIT , Administrative Development and

Higher Education for implementing online applications for Egyptian Universities, posting of secondary school exam results as well as national initiatives such as the "PC for Every Home Initiative" launched in 2002 (MCIT, 2004). The MCIT's announcement lends support to the 2000 findings that a little awareness and education can go a long way towards helping Egypt to join the global Internet community.

While penetration and distribution statistics provide useful insights regarding internet usage in developing countries, they do not tell the whole story. Table 5.1, based on the El-Nawawy survey (2000) profiles internet users in Egypt.

Table 5.1 Egyptian Internet User Profile

Descriptive Statistics:	1. Primary subscribers: 2/3 male; 1/3 female 2. 50% of subscribers were small and medium enterprises (SMEs) 3. 10% of subscribers use credit cards 4. 50% of subscribers used the internet for 2 or more years
Utilisation:	Internet utilisation patterns confirm that increased utilisation occurs between 2pm and 5pm with peak utilisation occurring between 8pm and 2am. The researchers conclude that this utilisation is predominantly non-business related.
Time Spent:	Half the surveyed sample uses the internet on average from one to three hours per day. One quarter of the surveyed sample use the internet on average, less than 15 minutes per day.
Purpose:	**(a)** More than half of the surveyed group uses ICQ or some other form of interactive communications; **(b)** 27% of respondents do not use email **(c)** all respondents browse the internet; **(d)** only 20% use the internet as a medium for office/LAN connectivity. Again the researchers conclude that applications are not indicative of widespread business use as the most direct business use for the Internet is office/LAN connectivity, followed by email.
Sites	Entertainment, communicating, downloading software, and news are the most commonly frequented sites by internet users in Egypt, followed by shopping and education. Business usage was ranked last by those respondents who use the internet for business related activities while a third of the surveyed group did not use the internet for business at all.
Conclusion	The study concludes that the use of the Internet is not for business at large as the business value is not felt largely due to the primary deterrent of awareness and education.

Source: (ElNawawy, 2000)

5.6 Environmental Overview

With the exception of its northern and eastern coastlines, as well as the Nile Valley, Egypt is predominantly desert. Because of the intensive irrigation needed to support this kind of landscape, Egypt has developed a host of environmental-related problems. Indeed, its very irrigation waters suffer from pollution, which then encroaches upon almost every other aspect of the country's environment. These challenges have been exacerbated by the high population density, which places a further strain upon resources.

Regulation and protection of the environment in Egypt comes under the jurisdiction of the Ministry of the Environment, the Ministry of Agriculture, Livestock, Fisheries and Land Reclamation, the Egyptian Environmental Affairs Agency, and the National Research Centre, Environmental Section. To this end, Egypt has formulated a report on land resources management, and has stipulated the necessity for land management strategies; environmentally sound agricultural practices and ameliorated irrigation and drainage systems; regulation of fertilizers, pesticides and mineral usage; and development of agricultural legislation in harmony with an effective environmental policy.

In 1994, Egypt passed the Environmental Protection Law. Law No 4 for 1994, outlines in great detail many aspects of environmental protection, such as acceptable emissions levels, areas designated as governmental protectorates, allowable fishing seasons, etc. It also specifies required documents and log books to be kept by companies as well as specifying severe financial and administrative penalties for violations. One major shortcoming of the law, however, is the lack of accounting standards that would mandate the form and content of pollution disclosures and environmental protection in the financial statements. Consequently, when a company voluntarily discloses environmental information, it tends to be purely narrative and self-laudatory.

The major international environmental agreements to which Egypt is a party include: Biodiversity, Climate Change, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Marine Dumping, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Tropical Timber 83, Wetlands, and Whaling. The Tropical Timber 94 agreement is signed, but not yet ratified.

5.7 Summary

As it is widely recognised that corporate reporting in general and CSR in particular is greatly influenced by social, political, cultural, legal, economic and technological factors (e.g. Mathews, 1993; Perera and Mathews, 1990; Tsang, 1998), this chapter discussed some of these contextual factors in order to give a better backdrop against which CSR practices in Egypt can be analysed and interpreted.

The chapter commenced with a brief demographical introduction on Egypt. Given the overwhelming Muslim majority (87%) and the argument presented in chapter four that religion affects business practice, Islamic values, as they pertain to the present research, were discussed in the proceeding section. The chapter continued with a review of the relevant economic policies with particular emphasis on the Egyptian government's economic reform and restructuring program and how the process of deregulation and privatisation has stimulated activity in the Cairo and Alexandria Stock Exchanges.

Recognising that strong, uniform accounting and auditing practices must be at the backbone of any economic reform programme, the Egyptian government passed legislation to impose international standard requirements on financial reports for all banks, as well as all companies trading publicly on the stock exchange. The CASE listing requirements and amendments to relevant laws, such as the Environmental Protection Law of 1994 and the Capital Market Law of 1995, despite not mandating public disclosure of CSR issues, are overviewed in the section on financial reporting framework. Finally, the chapter concludes with an in depth look at Internet usage in Egypt.

Given the aforementioned analysis of the social, political, cultural, legal and economic climate in Egypt it would stand to reason that a fair amount of social and environmental reporting could be expected from Egyptian corporations. Due to limited penetration and the nature of Internet usage in Egypt, however, significant attention to Internet disclosures via corporate World Wide Web sites is not expected.

Chapter Six

The Indian Context

6.1 Introduction

Although India occupies only 2.4 percent of the world's land area, it supports over 15 percent of the world's population with only China having a larger population. Of the approximately 1.1 billion population, forty percent of Indians are younger than 15 years of age. Nearly 65 percent of the people live in more than 550,000 villages, and the remainder in more than 600 towns and cities (Country Watch, 2004).

India's size, population and strategic location give it a prominent voice in international affairs, and its growing industrial base, military strength, and scientific and technical capacity give it added weight. It collaborates closely with other developing countries on issues from trade to environmental protection. In many senses, India shares significant portions of ancient history with other cultures and people of the Indian sub-continent, including Afghanistan, Pakistan, Nepal, Bangladesh and Sri Lanka. Surrounding powers from as far as Greece, Eastern Europe, Arabia and Persia have also played a role in India's history. The more recent history of India -- prior to independence in 1947 -- is shared with the countries of the Indian sub-continent, and was heavily influenced by the colonial power of Great Britain (Country Watch, 2004).

Culturally, India is one of the world's most heterogeneous countries with an extensive and diverse mixture of ethnic, linguistic and religious groups. Throughout India's history, the area of the Indian subcontinent was subject to successive incursions of settlers and invaders including Aryans, Arabs, Parthians, Greeks and other Europeans from the west and northwest; Central Asians from the north and north west; Mongolians, Tibetans, Burmese and other East Asians from the north east reaches and the Himalayans; as well as Malay, Asian and Austro-Asian groups from the east and south east; not to mention African and Oceanic people from the south and south west. This mélange of people has contributed to a variety of ethnic, linguistic, religious and cultural typologies on the Indian sub-continent today. The migration patterns of the diverse people into India appear to have contributed to the country's complexity while the existing ethno-linguistic variety of India's rich and complicated heritage reflects the major cultural movements mentioned previously.

Although 80 percent of the people are Hindu, India is also the home to more than 120 million Muslims, making it home to one of the largest Muslim populations in the world. The population also includes Christians, Jews, Sikhs, Jains, Buddhists, Zorastrians, and Parsis. Indeed, one of India's greatest legacies is the fact that it is the birthplace of four major religions - Hinduism, Jainism, Buddhism and Sikhism. Given the academic adage that "Hinduism is to India what comparative religion is to the world" (see Sharma, 2002), the following section discusses Hindu ethical values as they pertain to the present research.

6.2 Hinduism

6.2.1 Introduction

"Thou shalt love thy neighbour as thyself because thy neighbour is thyself; God is in both thee and thy neighbour, and both are in God. He who acts in this spirit need not fear that his acts will bind him to further existence."

-The Bhagavad Gita, trans. Franklin Edgerton, 1972, p 165

Hinduism is not a single religion, nor is it a term which identifies a single set of beliefs or ways of worship. Hinduism developed from the religious practices of those who lived near the River Indus in modern day Pakistan. However, Hinduism has been, and continues to be influenced by the traditions, stories and practices of people from other parts of India and beyond (Embree, 1972).

Hinduism has been commonly viewed in the west as a polytheistic religion. Although widespread, this is not a particularly accurate belief. Some have viewed it as a monotheistic religion because of the *Brahman* principle that all reality is a unity; the entire universe as one divine entity who is at one with the universe while simultaneously transcending it. Others view Hinduism as Trinitarian because Brahman is simultaneously visualised as one God with three identities: *Brahman* the Creator, *Vishnu* (*Krishna*) the Preserver and *Shiva* the Destroyer. Technically speaking, Hinduism is a henotheistic religion, that is, a religion which recognises a supreme deity, but which also recognises other gods and goddesses as facets, forms, aspects or manifestations of that supreme God (Ainslie, 1972).

Hindus believe in the repetitious *transmigration of the soul*, i.e. the transfer of one's soul into another body after death. This produces *samsara*, a continuing cycle of birth, life, death and rebirth during their many lifetimes. *Karma*, the accumulated sum of one's good and bad deeds, determines how you will live your next life. Through pure acts, thoughts and intentions, one can be reborn at a higher level, with the ultimate aim being to escape samsara by achieving enlightenment. Thus, material wealth, illness, suffering, prosperity, etc are all seen as natural consequences of one's actions, in this as well as previous lives.

6.2.2 The Sacred Texts of Hinduism

The Vedic age spans almost a millennium (c1500-500 BCE) of Indian history, of which the Vedas are the most important textual evidence. During this period four Vedas were written, of which the Rigveda is the oldest. The *Rigveda samhita* (concise compilation) consists of 10 mandals (books), of which Books II and VII are believed to be the oldest. The hymns of *Rigveda* provide valuable insights into the various aspects of Indian society, namely the nature of the economy, societal organisation, kinship, politics and religious and cosmological beliefs. The prayers of the *Rigveda* were set to music and modified for the purpose of singing and recompiled in the *Samaveda*. The *Yajurveda* not only contain the hymns, but also the accompanying rituals that reflect the social and political milieu in which they arose. The *Atharvaveda* contains charms and spells to ward off evil and disease. Its contents throw light on the beliefs and practices of non-Aryans, demonstrating a convergence of cultures. The Vedic *samhitas* were followed by the composition of a series of texts known as the *Brahmanas*. These contain ritualistic formulae and explain the social and religious aspects of the rituals. The later Vedic texts were compiled circa 1000-600 BCE.

The *Mahabharata* were written between 540 and 300 BCE and record the legends of the *Bharatas*. The sixth book of the Mahabharata, the *Bhagavad Gita*, a poem describing a conversation between the great warrior Prince Arjuna and the God Krishna has become the main sacred text of Hinduism and other belief systems.

The texts forming the philosophical foundations of Hinduism are the *Upanishadas*, which are 18 in number and are believed to have been written between 800 and 400 BCE. For the most part, they are written in the form of a dialogue between an omniscient guru and a receptive disciple. The doctrines of *karma* (action), transmigration of the soul, *maya* (illusion), *moksha* and *mukti* (liberation from the cycle of cause and effect, i.e. life and death) are some of the main tenets of Hinduism which find their expression in the Upanishadas (www.sacred-texts.com/hin/).

Samriti is traditional knowledge and dominates the entire body of post-Vedic classical Sanskrit literature. These address an array of overlapping subjects as follows:

1. ***Vedanga*** (auxillary to the Vedas) - comprising rituals and legal codes, astronomy, measurement, phonetics, etymology and grammar.
2. ***Darshana***- Six schools of thought of Indian philosophy
3. ***Itihas***- legendary works written in epic form
4. ***Puranas***- compilation of ancient legends, heavily coloured with superstition
5. ***Upaveda*** (auxillary to the Vedas) - deals with medicine, music, architecture, eroticism, archery and various arts and crafts.
6. ***Tantra***- writings of Saka and Shivite sects.
7. ***Agma***- scriptures of sectarian Hindus like Vaishnavites, Shivites and Sakas.

6.2.3 The Hindu Social System

The social vision underlying the Hindu social system is the focus upon liberation, or *moksha*. The question "How can we seek liberation and still focus on the welfare of society?" becomes primary. Three paths (*margas*), the yogas of (1) knowledge, (2) action and (3) devotion, mark the ways to liberation. Each path is considered on an equal par with the others. Ethics becomes a matter of following the disciplines or duties involved in your chosen path, a "living up to the system" (Hopkins, 1971). Underlying each path is a common ethical core which advocates self-control, non-violence, truthfulness, self-discipline, cleanliness and contentment. Hindus practice all three of these paths in differing degrees.

Gyana Yoga: The Path of Knowledge

The path of knowledge entails attainment of super-bliss through knowledge. The seeker realises the reality of all creation and actions and understands the futility of adherence to all worldly pleasures. This path of knowledge is a difficult one reserved for a select few. It requires a rare combination of rationality and spirituality. Based on the *Upanishadas*, it focuses on interior knowledge and meditation.

Karma Yoga: The Path of Action

The path of karma yoga, which is that of works and deeds, is the practice of many Hindus. *Varnashramadharma* describes the karma yoga model. *Dharma* depends on which *varna* one is born into and what *ashrama* one is in. Similar to the contingency theory of management, the righteousness of any action is defined in terms of its frames of reference. The Karma Yoga models advocates 'work without binding' which must not be misunderstood as working without objective. Over adherence to results is believed to lead an individual away from ethical behaviour, which would entangle him/her in the unending cycle of cause and effect.

Varnas: Four castes (varnas) make up this model of the social structure.

1. **Brahmans**: These people are the guardians of spiritual values, the religious teachers and priests. Twelve years of study are required to acquaint practitioners with the rituals and practices of this class.
2. **Ksatriyas**: These are the rulers and warriors that oversee the land or kingdom. Eight years of study are necessary for members.
3. **Vaisyas**: These are the merchants. They control cash flow, agricultural produce and livestock. Vaisyas require four years of study.
4. **Sudras**: These are the serfs accorded service positions, being members of the lowest caste.

Within the varna structure, every action, movement or exercise in carrying out the duties of the class one was born into becomes an act of worship leading towards enlightenment. In reality, rather than the *varna* system, *jati* (class within a class) becomes the decisive factor in societal relations. Within the four major varnas, hundreds to thousands of these classes divide society (Hopkins, 1971).

Ashrama: The Hindu response to the question "When should I do what?" lies in practicing the *ashrama* or four stages of life. Each stage is believed to last for 25 years.

1. **Knowledge Seeker:** The ideal for a student is to follow a dedicated regimen of ascetic and scholarly practice under the tutelage of a guru.
2. **Householder:** Householdership becomes a key stage in the whole system. Responsibilities to family, vocation and community occupy most of one's attention and energies.
3. **Retired Hermit:** At age fifty, a householder may escape to the forest. In this guilt-free, hermit stage of retirement, one seeks self-understanding and spiritual vision.
4. **Renunciator:** The last stage that of renunciation, describes one who neither loves nor hates anything, one who lives as identified with the eternal self.

The Four Goals: The doctrine of the four goals of life answers the questions "What should I do? What are legitimate things to follow?" In a sense, these goals correlate to the *ashrama* or stages of life and are based on the principle that human beings must lead a contented life, in totality in order to achieve liberation from the unending cycle of cause and effect. A contented life should not be skewed towards any single dimension; hence the four goals of life seek a balance between the following:

1. **Artha** (rightful earning): Earning wealth and/ or economic or political activity.
2. **Kama** (worldly contentment): The pursuit of sensual and material pleasures
3. **Dharma** (ethical behaviour): The leading of a moral life, accentuating duty and willingness to serve.

4. **Moksha** (liberation): Considered the supreme goal of man, the fourth and final goal is that of liberation. This can be viewed as matching the practice of one who reaches the final stage in life, renunciation, or a release from the constrictions of this life.

Bhakti Yoga: The Path of Devotion

Popular devotional worship is centred in the bhakti path. Bhakti does not seek an escapist, theistic retreat. Rather it seeks implementation of universal virtues, and maintains a classless, egalitarian outlook. Emotional expressions of devotion offered to the gods *Krishna* and *Kali* present a vigorous all-consuming passion for the holy.

6.2.4 Hindu Business Ethics

Hinduism follows a tradition-based approach to ethics. As discussed in the preceding section, Hinduism is based on systemised relativism, depending both on the caste into which one is born and on one's stage in life. Are then the ethics of the merchant caste different from those of the warrior, or the ethics for a student different from those for a retiree? In Hinduism, the answer is yes. Given the potential diversity in codes of conduct that can be termed Hindu, meaningful discussion would be well beyond the scope of this research, as would a comprehensive review of all texts considered sacred in the Hindu tradition. Therefore, table 6.1 below highlights tenets of Hinduism, extracted from the main sacred texts, which are equally applicable across castes, and how they pertain to various ethical issues.

Table 6.1 Hindu Business Ethics

Principle	Hindu Approach
Honesty	"One commodity mixed with another must not be sold as pure, nor a bad one as good, nor less than the proper quantity or weight, nor anything that is not at hand or that is concealed. One who commits any of these is deemed a sinner." (Buhler, 1998; *The Laws of Manu*: Chapter 8, Verse 203)
Fairness/ Equity	"To incline to neither side, but to rest impartial as the even fixed scale is the ornament of the wise." (Varatharasan, 1988; *Thirukkural*; Kural 118)
Moderation	"Sri Krishna is opposed to the amassing of wealth by irresponsible means and the hoarding of merchandise with intent to gain undue profit at the expense of the society's needs." (Franklin ,1972); *The Bhagavad Gita;* Chapter 3, Verse 13)
Sincerity	"An ambitious businessman who charts his course and sincerely and honestly pursues it with full determination is sure to succeed." (Varatharasan, 1988; *Thirukkural*; Kural 666)
Responsibility Towards Customers	"A trader who always gives priority to his customers' interests will eventually prosper and be successful in his business." (Varatharasan, 1988; *Thirukkural*; Kural 120)
Responsibility Towards Society	"He truly lives who knows and rightly discharges his obligations towards society; he who does this not will be reckoned among the dead." (Varatharasan, 1988; *Thirukkural*; Kural 214) "He who is free of malice towards all beings, who is friendly as well as compassionate, who is free from egoism, to whom pleasure and pain are alike and who is forgiving by nature, who has subdued his body, mind and senses and has surrendered his mind and intellect to me, that devotee of mine is dear to me." (Franklin ,1972); *The Bhagavad Gita;* Chapter 12, Verses 13 and 14)

6.3 Economic Overview

6.3.1 Economic Policies and Performance

India has come a long way since its independence in 1947. Its economy has a diversified industrial base, a growing, world-class IT and software development sector that has recently ridden the outsourcing boom, and a large and relatively sophisticated financial sector. With a population of over one billion to support, India has been gradually transforming its economic base from agrarian to industrial and commercial. The agricultural sector accounts for 25 percent of GDP, the industrial sector (mining, manufacturing, utilities, construction) 25 percent, and services sector 50 percent. India's economic performance over the past several decades is generally thought to have lagged that of China, its northern neighbour. However, a close look at what India has accomplished over the past decade when it began to seriously pursue economic reform suggests that it has also made dramatic progress.

For many years after independence, Indian economic policy emphasised central planning with the government setting goals for, and closely regulating, private industry. In the late 1970s, the government began to reduce state control of the economy, but made very slow progress toward this goal. By 1991, the government still ran many of the major industries and maintained most of the infamous 'government permit raj' that required government permission for many routine business decisions. During the Persian Gulf conflict in 1991, India faced a financial crisis because of rising oil prices, which stimulated economic reforms and liberalization. These reforms removed most of the government regulations on investment, including many on foreign investment, and eliminated the quota and tariff system that had kept trade at low levels. Reforms also deregulated a number of industries and privatized many public enterprises.

Apparently, the reforms were good for the economy; GDP grew at an average of more than six percent through the year 2000. The economy even weathered the Asian financial crisis in 1997-1998 with only a slight depreciation of the rupee and a bit less foreign direct investment (FDI). Perhaps the major reason for India's avoidance of the contagion that swept through Southeast Asia during the crisis is that it never opened its economy to free movement of international capital or made the rupee fully convertible. The recognition that its institutions were not fully ready for the rigors of internationally mobile capital was, in retrospect, a great blessing. Private investment has been the fuel for India's recent economic success; domestic savings and investment now run at about 26 percent of GDP. While FDI reached a record high of US$4.3 billion in 2001, inflows of direct and portfolio investment from abroad are miniscule as compared to those received by China. India has more work to do to become a truly attractive destination for foreign investment.

The BJP-led coalition government is not in a strong position to push the remaining economic reforms needed to avoid a further slowdown in growth. Fiscal policy cannot be used to stimulate growth because the budget deficit is already too high. Real progress needs to be made in lowering real interest rates, de-regulating agriculture, establishing reasonably-priced and reliable electricity service more widely and eliminating restrictive, outmoded labour practices.

India's GDP grew to 7.4 percent in 2003, up from 4.7 percent growth in 2002, due to a comeback in world demand, especially in the U.S. and China. Outsourcing has become a hot service export for India, whose young, technically-apt population can perform IT and call centre work much cheaper than their western counterparts. Inflation rate has run a bit above the norm for the developed world; consumer price inflation and deflator inflation both averaged 3.9 percent in 2003, slightly lower than the range for the past three years.

The large fiscal deficit in India narrowed slightly in 2003, to 4.4 percent from 4.7 percent in 2002. The central government's deficit is swollen by politically popular subsidies on electricity, fuel, fertilizer and a variety of other goods and has been five to six percent of GDP while state governments have also spent beyond their receipts to the extent of another four or five percent of GDP (Country Watch, 2004).

India is ranked the fifth largest economy in the world, in terms of purchasing power parity, with only the US, Chinese, Japanese and German economies being larger (Reserve Bank of India, 2003). In terms of Gross Domestic Product (GDP) growth rates, India was one of the ten fastest growing economies in the world during the 1980s and moved up to eighth fastest during the period from 1980 to 1998. During that same period, growth of GDP in per capita terms was among the top ten.

While growth is considered to be a key measure of macroeconomic performance, inflation is an indication of economic stability. In the 1980s, India's average inflation rates was close to Asian developing countries, above developed ones and lower than the average for all developing countries. In the 1990s, inflation had been relatively low in the second half of the decade. The Indian economy, however, did not fully escape the slowdown of the world economy, the infectivity of the East Asian crisis and the drop in world commodity prices. This affected exports, which declined sharply, and put pressure on inflation and growth of the economy. The flight of capital from emerging markets affected foreign portfolio flows into

India. For the first time, net portfolio flows of FDIs were negative for the year ended 2001, but showed sustainable signs of recovery towards the beginning of fiscal year 2002.

Based on the new GDP series with 1993-94 as the base year, India's GDP growth decelerated in 1998-99 to 5.0 percent from 7.8 percent the previous year. The following year, however, it was back up to 6 percent, indicating that economic recovery had begun. Better performance in the following years has been largely attributed to a substantial rise in agricultural production, which increased by 7 per cent in the past year. Industrial segments, such as basic, intermediate and consumer goods failed to repeat their high of the late nineties, but still managed growth rates of 1.7 per cent, 5.8 per cent, and 2.3 per cent respectively. A noticeable feature of Indian GDP growth is the increasing share of the services sector in overall growth. The services sector, which contributed 46 per cent of total GDP in 1994-95, increased its share to 51.8 percent in 2002 (Securities and Exchange Board of India Annual Report, 2002). The gross domestic savings rate, however, has been showing uneasy trends. The decline in the savings rate over the past several years, combined with the change in distribution pattern of household savings, has had an adverse impact on the flow of funds into the securities market (Reserve Bank of India, 2001).

India describes its system of economic development in its first Five Year Plan as follows: "The socialist pattern of society means that the basic criterion for determining the lines of advance must not be for private profit but social gain, and the pattern of development and the structure of the socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in income and wealth." (Kust, 1966).

In India, industrial enterprises can be classified as:

1. Public sector undertakings, wholly owned by the central government
2. Quasi-government undertakings, where the government is the majority shareholder, and
3. Private sector companies, where all shareholders are private individuals/organisations.

Public sector enterprises are subject to two types of audit:

1. Statutory audit by private, independent auditors, and
2. Government audit by the Comptroller and Auditor General (CAG) of India

The statutory auditor's report and comments of the CAG are published in the annual reports. Private companies, in contrast, are subject to, and publish only the statutory audit.

6.3.2 The Mumbai (Bombay) Stock Exchange (BSE)

The Securities and Exchange Board of India (SEBI) regulate India's stock exchanges. While some 22 exchanges can be found throughout the country, the National Stock Exchange, Mumbai (BSE) was established in 1993, to provide a level playing field for investors nationwide. By 1995, the BSE had become the countries largest exchange and, since 2000, has operated three market segments, namely capital markets, wholesale debt market, and futures and options.

In March 2003, the BSE had a market capitalisation of Rs1.4 trillion, with some 895 members, including multiple members listed on more than one segment. Trading volume in 2002-03 was Rs2.1 trillion, accounting for 86% of all market trading activities in India. Between 1995-96 and 2002-03, the BSE's turnover has registered an annual compound growth rate of 73.1% (HSBC, 2004).

Until the 1990s India had a tightly controlled economy that allowed little foreign investments. From July 1991 industrial and investment policies have become progressively simpler, more liberal, and more transparent. Nonetheless, even today, foreign investment remains relatively controlled with equity limits for investors in many sectors and approval required for many types of foreign investment. In some of these sectors limits can be exceeded on a case-by-case basis.

The current policy has automatic approval for foreign equity investment in many sectors. Investments in some sectors require approval by either the Foreign Investment Promotion Board (FIPB) or the Cabinet Committee on Foreign Investment. These bodies have discretionary powers and the approval process is not always routine or transparent. The rules vary from industry to industry and are frequently changed, usually to become more liberal. In the majority of cases foreign investment does not get national treatment.

To improve the efficiency and transparency of the country's securities markets, a number of reforms were introduced in 2003. SEBI has now been vested with wide ranging powers to search and seize assets in cases of insider trading and market manipulation. The penalties for these offences have also been enhanced. Also commencing in 2003, the SEBI introduced a compulsory rolling settlement of T+2, with a view to protecting investor's interests and complying more closely with international best practice (SEBI, 2003).

India has adequate laws and regulations governing commercial transactions. Central and state governments regulate the prices of "essential" products, including food grains, sugar, edible oils, basic medicines, energy, fertilizers, water and many industrial inputs. Many basic food products are under a dual pricing system-at fixed prices through government distribution outlets, at market prices on the open market. The Indian government is revising the 1956 Companies Act, which governs competition laws and commercial practices.

Corruption and Crime

Corruption remains one of the largest hurdles that foreign investors face doing business in India. The government procurement system has been particularly subjected to allegations of corruption in the telecommunications and power sectors. India has several laws and regulations that address corruption. The main ones are the Prevention of Corruption Act, 1988; The Code of Criminal Procedures, 1973; The Companies Act, 1956; and The Indian Contract Act, 1872. Giving or accepting a bribe is considered a criminal act under the Prevention of Corruption Act. A bribe to a foreign official is also considered a criminal act.

The GOI has not amended its anti-corruption laws since 1988, but has initiated steps to revise the Companies Act of 1956 and has proposed changes in the Prevention of Corruption Act, 1988. The new changes propose to give more powers to vigilance departments in government bodies and to make the Central Vigilance Commission (CVC) a statutory body. The judiciary has taken the lead in combating corruption in India. A number of bureaucrats and politicians have been indicted or convicted under anti-corruption laws; however, no investors have been convicted.

Labour

India has the world's third-largest pool of scientific and technical personnel, which serves as an important attraction for foreign investors. Most managers and technicians, and many skilled workers, speak English, and many have studied or worked abroad. Unemployment and underemployment are high, providing an abundant supply of potential employees. Although there is a large pool of underemployed, educated personnel, illiteracy acts as a brake on labour productivity in the work force as a whole.

India is a member of the International Labour Organization (ILO) and adheres to 37 ILO conventions that protect workers' rights. The Industrial Disputes Act of 1947 governs industrial relations. Workers may form or join unions of their choice. The Factories Act regulates working conditions. Other laws regulate employment of women and children and prohibit bonded labour. Although unionized workers number more than seven million, unions represent less than one fourth of the workers in the organized sector, primarily in state-owned concerns, and less than two percent of the total work force. Where workers are unionized, wage increases are negotiated between unions and management.

Most unions are linked to political parties and their politicization can create problems for domestic and foreign employers. Labour militancy has declined in recent years, however, with worker-days lost to strikes and lockouts declining every year since 1991. Payment of wages is governed by the Payment of Wages Act, 1936 and the Minimum Wages Act, 1948. Industrial wages range from about US$3 per day for unskilled workers, to over US$150 per month for skilled production workers. Retrenchment, closure and layoffs are governed by the Industrial Disputes Act, which requires prior government permission to layoff workers or close a businesses employing 100 or more workers. Permission is not easily obtained. Private firms have successfully downsized using voluntary retirement schemes. Concerns about capital displacing labour have led to limits on capital investment in some sectors. The GOI places great importance on bilateral investment agreements and has signed bilateral investment treaties (BIT) with many countries, including the United Kingdom, France, Germany and

Malaysia. Negotiations on investment protection agreements are underway with other countries.

6.4 Financial Reporting Framework

India is an example of a developing country whose financial reporting practices were based on the British model as a result of colonisation. As such, company law has traditionally seemed to stress the importance of reporting to shareholders on the stewardship of management. Various developments in company law have increased disclosure requirements in certain areas of special interest to the government in its desire to control and monitor the growth of large-scale industry (Marston, 1986). The requirement to report detailed information about highly paid employees and production capacity information disclosure can be cited as examples.

Since independence in 1947, India has been attempting to develop and strengthen its industrial base. This has led to import controls and a protected home market. The foreign Exchange Regulation Act, 1973 restricts inward investment and foreign equity participation in certain industries. Company law requirements to disclose imports, exports, expenditure in foreign currency and the amount remitted during the year in foreign currencies on account of dividends arise from the government's concern to control these areas.

Generally Accepted Accounting Principles (GAAP) in India is derived from the following sources:

1. The Companies Act of 1956 (The Act), Schedule VI, which prescribes the form and content of the balance sheet, profit and loss statement, and other information that must be disclosed by all companies except insurance, banking, electricity, and other

companies governed by other acts. The Act also includes a number of generally accepted accounting principles. Accounting practices set forth in The Act are mandatory requirements, and non-compliance results in contravention of the law.

2. Accounting Standards, issued by the Institute of Chartered Accountants of India (ICAI). These standards are voluntary in their initial years and become mandatory on specified dates.
3. Statements and Guidance Notes on accounting matters issued by the ICAI. The Guidance Notes are recommendations for all intents and purposes (Hedge, et al., 1997)

6.4.2 Social Financial Reports and Accounts

In addition to the legal requirements to disclose information that can broadly be described as being of a social nature, a certain amount of voluntary disclosure has developed in India over the past three decades. While the Companies Act of 1956 does not require social financial reports of either public or private companies, these statements- social balance sheets, social income statements, human resource accounts – are often nonetheless, provided by large industrial companies both public and private as far back as the mid 1970s (see Marston, 1986; Hedge et al, 1997).

The requirement for disclosure of non-monetary information in the financial statements of companies was introduced in 1971 and the scope of the requirements was widened in 1973. The Companies Act of 1956 was amended to include the new rules pertaining to disclosures in Indian company annual reports related to human resources. Particulars of personnel drawing gross remuneration in excess of Rs 144,000 per annum which are required to be published are:

1. Name
2. Designation

3. Remuneration
4. Qualification
5. Experience
6. Date of commencement of employment
7. Age, and
8. Previous employment held

In addition, Indian annual reports are also required to disclose auditors' compensation. Legal requirements pertaining to corporate responsibility are contained in several provisions of the Companies Act, 1956 and the Environmental Protection Act of 1986. (Rajmani, 1994) The Companies Act empowers the central government to regulate companies in the areas of:

1. **Amalgamation and Takeovers:** To satisfy the concept of public interest, any amalgamation should be for the benefit of the shareholders, the employees, and the public at large.
2. **Restriction on transfer of shares and debentures:** The central government can impose restrictions on transfer of shares when it is in the public interest to do so.
3. **Mismanagement**: If the affairs of a company are being carried on in a manner prejudicial to the interests of the company or the public interest, a member can apply to the Courts for prevention thereof.

In all the aforementioned cases, the concept of the "public interest" is both vague and subjective. In the environmental field, however, the Environment Protection Act of 1986 prescribes standards and penalties for violations regarding the discharge or emission of pollutants. As is the case with the Egyptian Environmental Protection Law of 1994, despite the fact that corporate social responsibility is contained within the provisions of the law, there are no accounting standards that mandate the form and content of pollution disclosures and environmental protection in the financial statements. As a consequence, companies, private and public, tend to disclose only the positive impact of their activities on the environment.

6.5 Internet Usage

Internet development in India follows a very similar pattern to that of Egypt. In 1995 there was limited Internet access in a few of India's major cities. VSNL, the government agency responsible for Internet activities, and the Department of Telecommunications (DOT) provided an erratic connectivity with miserly bandwidth and far too few lines. Connection rates ran as low as 5% and users were frequently cut off. Ironically, the rates for this level of service were among the highest in the world with domestic users paying about $2 per hour and lease lines averaging $2000 per month for a 64 Kbps line (World Factbook, 1998).

By mid 2000, the government monopoly was largely over. Dozens of small to large ISPs had set up business triggering a price war as well as major improvements in service. Small Internet kiosks were even set up in small towns following strong encouragement from both State and Central governments. Nearly 80% of India's internet users, however, can still be found in the following six cities: Delhi, Mumbai, Bangalore, Hyderabad, Chennai and Pune. Delhi and Mumbai alone account for nearly 50% of all users (NASSCOM Internet Survey, 2000). Although the government, which had monopolized infrastructure development until recently, has opened the industry to private entrants and promised support, in practice the vast bureaucracies that implement the government programmes have moved sluggishly and ineffectively. For instance, the private ISPs were initially required to acquire their bandwidth from VSNL which wanted a country wide monopoly on this lucrative sector. This resulted in new users signing up competed for increasingly limited bandwidth. Now the ISPs have been allowed to establish their own gateways but the effect is yet to be felt extensively. The DOT, responsible for providing phone lines to ISPs lagged far behind and the new providers are often left with far too few lines to service the increased demand. Lease lines, though still expensive at approximately $1000 per month for a 64 Kbps line, have been dramatically reduced.

Government statistics show over 18 million Internet users as of January 2004, up from a mere 1 million users as of June 2000. With a population of well over one billion, India's Internet penetration rate is approximately 1.7%. Optimistic predictions of 50 million users by 2007 would represent fewer than 5% of the population. Whether this growth is even possible within the time frame estimated by the government is debateable as the infrastructure of both the Internet and the telephone networks is already far behind current demand. In developed countries telephone networks had basically reached saturation when the internet arrived. The problem was primarily to provide the increased bandwidth and line usage the Internet demands. In India, the telephone network is antiquated, overextended and only reaches a fraction of the population which is interested in getting a telephone. Internet demand is clearly straining the telephone system further.

While both Egypt and India have made great strides towards narrowing the digital divide within their borders, the challenge in the coming period will clearly be to provide a much larger section of their respective populations with not only the means but also the reason to access the Internet. Table 6.2, based on the NASSCOM Internet survey (2000) of 68 Indian cities and towns (representing 92% of the total Internet users in India) profiles Indian Internet users.

Table 6.2 Indian Internet User Profile

Descriptive Statistics:	1. Primary subscribers: 3/4 male; 1/4 female 2. 68% of users aged between 15 - 30 3. 20% of subscribers use credit cards 4. Corporate users account for 43% of internet usage 5. 58% of subscribers used the internet for 2 or more years 6. 62% of respondents were employed at management level
Utilisation:	Internet utilisation patterns highlight that increased utilisation occurs between 3pm and 7pm with peak utilisation occurring between 9am and 3pm. The researchers conclude that this utilisation is predominantly business related.
Time Spent:	Average usage was 70 minutes per day with only 15% of the sample spending over 2 hours per day. 16% of the surveyed sample uses the internet on average, less than 20 minutes per day.
Purpose:	**(a)** More than half of the surveyed group (59.2%) use the internet as an information resource; **(b)** 11.3% use it as an educational tool **(c)** only 8.2% use it for entertainment **(d)** the most frequently used services online were email (83.4%) and search engines(77%).
Additional Comments	By early 2000 the Internet and e-commerce industry in India employed only 82,000 people. In light of this statistic, it is not surprising that the study found 91% of India's corporate websites to be located overseas.

Source: NASSCOM Internet Survey (2000)

6.6 Summary

India is an example of a developing country whose financial reporting practices were based on the British model as a result of colonisation. As such, company law has traditionally seemed to stress the importance of reporting to shareholders on the stewardship of management. Various developments in company law have increased disclosure requirements in certain areas of special interest to the government in its desire to control and monitor the growth of large-scale industry (Marston, 1986). Although the Companies Acts and ICAI standards primarily underpin financial reporting in India, governmental and professional bodies also exert some influence. The Department of Public Enterprise requires public enterprises to prepare accounts and report economic information on a uniform and comparable basis. The content of the 27 accounting standards issued by the ICAI is not underpinned by a conceptual framework, and it has been largely influenced by external factors, such as the IASC. Although compliance with the ICAI accounting standards is mandatory, as yet, there is no enforcement mechanism, such as the UK Financial Reporting Review Panel or the U.S. Securities and Exchange Commission. Stock exchanges and the SEBI have also had an impact on financial reporting in India. The SEBI requires, for example, the publication of a Corporate Governance Report, certified by the auditors, giving information about the composition and responsibilities of the board, details of the audit and remuneration committees as well as shareholders' committee. Other voluntary bodies also identified as making a useful contribution to the development of financial reporting include the Indian Chamber of Commerce, Indian Commercial Association, and Indian Accounting Association and its Research Foundation (Banerjee, 2002).

Given these antecedents, it is expected, as in the case of Egypt, that a considerable amount of CSR related disclosures would be found in the annual reports of Indian corporations particularly in the employee related issues as India and Egypt are developing countries with a great need to develop and use their human resources in order to raise the standard of living. However, again due to the lack of penetration and nature of Internet usage in India, the impact of online CSR disclosures is expected to be considerably less than in the UK.

Table 6.3 Disclosure Expectations of Case Study Countries

Issue	Expectations
Employee related	Employee related issues are expected to be the area of highest disclosure in both case study countries as India and Egypt are developing countries with a greater need to develop and use their human resources in order to raise the standard of living. It is expected that both Egyptian and Indian corporations will disclose more than their UK counterparts in this area.
Customer related	Lack of statutory requirements, the presence of few organised social groups and less social awareness in both Egypt and India regarding consumer rights and responsible consumerism would lead the researcher to expect significantly less disclosure in this area by the case study countries.
Environment related	As explained in Chapter three, unlike other aspects of CSR, environment-related disclosures (of any description) through the annual report to shareholders are a relatively recent feature of corporate financial reporting. However, as both case study countries have Environmental Protection laws and Stock Exchange disclosure requirements it is expected that reporting on the natural environment will feature prominently in both Indian and Egyptian corporate reports.
Public Stakeholder related	Given the socialist histories of both case study countries, it is expected that community involvement and social donations will be the highest disclosed items in this category. Again due to the lack of statutory requirements, the presence of few organised social groups and less social awareness in both Egypt and India, it is not expected that issues of public health and safety, anti-corruption and bribery or public policy involvement will feature prominently in the annual reports of companies in either of the case study countries.
Internet	The quantity and nature of online CSR disclosures is expected to be considerably less in the case study countries than in the UK due to an under-developed corporate reporting culture as well as limited penetration and the nature of Internet usage in India and Egypt.

Chapter Seven

Research Methodology

7.1 Introduction

In the previous chapters, the literature on corporate social responsibility and the legal framework for corporate disclosure in the UK, India and Egypt helped to shape this research and contribute to the selection of its methodology. The objectives of the study, reasons for choosing the topic, and the research questions were explained in chapter 1. This chapter commences by over viewing the research philosophy and methodological issues involved in cross-cultural business research. The chapter then documents the research populations. It continues by explaining the research methods employed and describing the research instrument, and concludes by describing the research pilot study.

7.2 Research Philosophy

The social world of business, unlike the physical sciences, is far too complex to lend itself to theorising by definite 'laws' (Saunders et al, 2003). Rich insights into this complex world could potentially be lost if such complexity is reduced entirely to a series of law-like generalisations. Not only are disclosure decisions complex, they are also unique. They are a function of a particular set of circumstances and individuals. This will invariably raise questions of generalisability of research that aims to capture the rich complexity of social situations. However, if we accept the notion of an ever-changing dynamic business environment, i.e. that the circumstances of today may not apply in six months' time, then some of the value of generalisation is lost. By the same token, if we accept that all organisations are unique, that too renders generalisability less valuable.

It is therefore necessary to explore the subjective meanings motivating the disclosure decision in order to be able to understand it. Social constuctionism views reality as being socially constructed. Managers may place many different interpretations on the situations in which they find themselves. These different interpretations are likely to affect their actions and the nature of their social interaction with others. In this sense, managers not only interact with their environment, they also seek to make sense of it through their interpretation of events, such as environmental legislation or stock market regulations, and the meanings that they draw from these. In turn, their own actions may be seen as being meaningful in the context of these socially constructed interpretations and meanings. Following an interpretivist philosophy, it is therefore the role of this study, to seek to understand the subjective reality of the companies under study in order to make sense of and understand their motives, actions and intentions in a way that is meaningful in the proposed research environment.

7.3 Research Methodology

Among the different approaches in the qualitative approach, the research was conducted based on grounded theory. Grounded theory, as outlined in chapter one, is a qualitative approach which liberates the researcher from imposing *a priori* assumptions and helps to discover what lies behind a specific phenomenon. This methodology enables the researcher to begin with a broad area of study and offers the researcher the freedom to go to the site of study without constructing any hypotheses. It also offers the researcher a broad range of flexibility to understand the phenomenon under investigation (Stauss and Corbin, 1994, 1998).

The researcher was informed by Strauss and Corbin's (1998; 1990) approach for several reasons. The CSR disclosure phenomenon being investigated has been predetermined, which is recommended by Strauss and Corbin's approach, while in contrast, Glaser (1992) advises researchers to enter the site without a predetermined research subject and let the phenomenon emerge through interactions with the site. The Strauss and Corbin approach introduces a structured set of analytical steps which provide the researcher with systematic analytical techniques for handling raw data and analytical interpretive techniques, as well as developing concepts to build a theory (Strauss and Corbin, 1998). This structured set of analytical procedures does not exist in the Glaser approach which prefers more general analytical procedures. Given the aforementioned advantages, the Strauss and Corbin approach saves time and resources.

The Strauss and Corbin approach encourages the researcher to enhance his/her "theoretical sensitivity" concerning the phenomenon under investigation. Theoretical sensitivity is the researcher's ability to give meaning to data and to determine what are considered to be the important issues to be investigated. This theoretical sensitivity provides the researcher with an open mind but not an empty mind when investigating the phenomenon (Dey, 1993). It also enables the researcher to challenge his/her existing assumptions, enhance knowledge structure, avoid poorly validated research and transfer from the descriptive mode to the theoretical analytical mode. To gain theoretical sensitivity, the researcher needs to practice constant comparability, questioning and interaction with data (Lye et al., 1997). Therefore, grounded theory influenced the researcher's use of literature as a means of keeping up with the field of study, and the literature covered the entire field without focusing on a specific area within the phenomenon under investigation.

7.4.1 Cross-cultural Management Research

A review of the relevant literature has identified the following six approaches regarding cross-cultural management research: Parochial studies, ethnocentric studies, polycentric studies, comparative research, geocentric studies and synergistic studies. Studies vary in the theoretical and management issues which they address, in their assumptions about universality, in their ways of dealing with similarity and differences, and, therefore, in the methodological problems which they must confront (Adler, 1984). Each of the six types of studies is designed to address a different set of questions and is based on a different set of assumptions. For researchers to successfully build a theoretical framework for understanding the behaviour of people in organisations around the world, and for managers to effectively use the results of cross-cultural management research, it is necessary to differentiate the six types of studies and to delineate those areas in which further research is needed. Table 7.1 briefly highlights the main issues associated with each of these different approaches.

Title	*Culture*	*Approach to Similarity /Difference*	*Approach to Universality*	*Type of Study*	*Primary Question*	*Main Methodological Issues*
Parochial Research	Single culture studies	Assumed similarity	Assumed universality	Domestic studies	What is the behaviour of people like in work organisations? Study is only applicable in one culture and yet it is assumed to be applicable to many cultures	All of the traditional methodological issues concerning design, sampling instrumentation, etc. without reference to culture.
Ethnocentric Research	Second culture studies	Search for similarity	Questioned universality	Replication studies	Can we use home theories abroad? Can this theory which is applicable to Culture A be extended to Culture B?	How can research be standardised across cultures? How can instruments be literally translated? Replication should be identical to original study with the exception of language
Polycentric Research	Studies in many cultures	Search for differences	Denied universality	Individual studies of foreign cultures	How do managers manage and employees behave in country X? What is the pattern of relationships?	How can country X be studied without either using home country theories or models and without using obtrusive measures?
Comparative Research	Studies contrasting many cultures	Search for both similarity and differences	Emergent universality	Studies comparing many foreign cultures	How are the management and employee styles similar and different across cultures? Which theories hold across cultures and which do not?	Is the methodology equivalent at each stage? Are the meanings of key concepts defined equivalently? Has the research been designed such that the samples, instruments, etc. are equivalent with references to the cultures included?
Geocentric Research	International business studies	Search for similarity	Extended universality	Studies of multinational organisations	How do multinational organisations function?	All traditional issues with the added complexity of geographical dispersion. Culture is frequently ignored.
Synergistic Research	Intercultural management studies	Use of similarities /differences as a	Created universality	Studies of intercultural interaction in work settings	How can intercultural interaction be managed?	How can universal and culturally specific patterns be distinguished? What is

resource	the appropriate balance within one organisation?

Table 7.1: Issues in Cross-cultural Management Research **Source: (Adler, 1984)**

7.3.2 Issues in Comparative Research

Comparative studies are designed to identify the similarities and differences across two or more cultures. Using cross-cultural similarities, comparative studies are designed to identify an emergent universality. In ethnocentric studies, one culture's "universal" theories are imposed on another culture. In polycentric studies, the possibility of a meaningful universality is denied. But in comparative studies, universality exists through attempting to define patterns that emerge from all cultures studied. Thus, comparative studies search for both similarities and differences. They label the emergent similarity as universality and the emergent differences as cultural specificity.

To conduct comparative studies, researchers must assume that no culture is dominant. If the researcher either implicitly or explicitly, assumes that one culture's view of reality is superior to another's, or that one culture's ways of solving organisational problems is superior, then s/he is conducting ethnocentric, not comparative research (Adler, 1984).

7.3.3 Methodological Dilemmas in Comparative Management Research

As argued earlier, the problem of equivalence is faced at each stage of a comparative research study. At the highest level of abstraction, the research topic should be identical across cultures. The conceptual and methodological approaches to researching the topic should also be equivalent in meaning, but not necessarily identical in structure, across cultures. This equivalence applies to the selection of a topic, sampling, translation, measurement and instrumentation, administration, and analysis.

The choice of sample is dictated by both the specific objectives of the study and the more pragmatic consideration of data availability. Data availability is of particular concern in studies of emerging or transitional economies or studies relying on government owned entities. The following sections describe how each of these issues was addressed in each of the countries under study, in particular Egypt and India.

7.4 Study Populations and Samples

7.4.1 The UK Sample

The UK sampling frame consisted of the top 100 companies listed on the London Stock Exchange in the Financial Times 1,000 for fiscal year end 2002. The Financial Times 1000 is an annual listing of the largest UK companies and provides a mix of organisations that are significant in the British economy. This is a popular starting point for study populations in finance, auditing, accounting and management research (Collier, 1993). The sampling frame is limited to the Financial Times Top 100 because such companies are likely to be the most responsive to public pressures for the acceptance of a broader range of corporate responsibilities. Past CSR research has also focused primarily on members of the industrial sectors, since it is these sectors whose production process (es) if not managed appropriately, could have a devastating effect on the natural environment, a central theme in CSR. For this reason, the top 100 companies were filtered to exclude all non-industrial sectors and were checked to ensure that each company was still trading and not the subsidiary of another member of the sampling frame. Therefore, 60 companies, which were members of non-industrial sectors were identified and excluded. This reduced the sample to 40 companies. (See Appendix A for a detailed listing supporting the above analysis). Table 7.2 below shows breakdown of sample by industry segment.

Table 7.2: Breakdown of UK Sample by FTSE Industrial Group

FTSE Industrial Group	# of Companies in UK Sample
Aerospace & Automotive	4
Chemicals	3
Construction & Materials	2
Engineering & Electronics	3
Food, Beverage and Tobacco	14
Mining	4
Oil & Gas	4
Pharmaceuticals and Health Products	3
Telecommunications	3
Utilities	5

Total sample size: 45 Companies

7.4.2 Egyptian Sample

The Egyptian sampling frame consisted of the top 100 companies listed on the Cairo & Alexandria Stock Exchange (CASE), for FY2002, based on their market capitalization. The top 100 listed companies accounted for almost 93% of the value traded, 84% of the volume traded and 96% of the number of transactions for stocks in the first six months of 2002. In that time period, the value traded on the exchange amounted to LE 13.6 billion of which foreign participation represented approximately 21.5% (CASE, 2002).

The top 100 companies were first checked to ensure that each company was still trading and not the subsidiary of another member of the sampling frame. The list was then refined to exclude all multinational corporations and companies in the non-industrial sectors. As the research objectives outlined in chapter one indicate, the purpose of the study was to survey Egyptian disclosure practices without undue influence of potential national or organisational cultural factors. Once again, the largest companies have been chosen because they are considered to be more proactive to the social and environmental issues than medium and small companies. Moreover, they have more resources to make additional disclosures than small and medium sized companies (Adams *et al.*, 1998; Andrew *et al.*, 1989, Richardson and

Welker, 2001). This narrowed the list to the 31 companies used in the sample. (See Appendix B for a detailed listing supporting the above analysis). Table 7.3 below, shows the breakdown of companies in the Egyptian sample by industry segment.

Table 7.3: Companies in Egyptian Sample by Industry Segment

CASE Industrial Group	# of Companies in Sample
Food, Beverage and Tobacco	5
Cement	6
Chemicals	2
Telecommunications	3
Textiles	1
Pharmaceuticals	4
Building Materials and Construction	10

Total Sample Size: 31 Companies

7.4.3 Indian Sample

The Indian sampling frame consisted of the top 100 companies listed on the Bombay Stock Exchange (BSE) in Mumbai, for FY2002, based on their market capitalisation. The top 100 companies were first checked to ensure that each company was still trading and not the subsidiary of another member of the sampling frame. The list was then refined to exclude all multinational corporations and companies in the non-industrial sectors. As with the Egyptian sample, an attempt was made to minimise the influence of potential national or organisational cultural factors. Once again, the largest companies have been chosen because they are considered to be more proactive to the social and environmental issues than the medium and small companies. This narrowed the list to the 46 companies used in the sample. (See Appendix C for a detailed listing supporting the above analysis). Table 7.4 below shows breakdown of the Indian sample by industry segment.

Table 7.4: Breakdown of Indian Sample by Industry Segment

Industry Segment	# of Companies in Sample
Aerospace & Automotive	4
Chemicals	6
Construction & Materials	7
Engineering & Electronics	3
Food, Beverage and Tobacco	2
Mining	5
Oil & Gas	6
Pharmaceuticals and Health Products	9
Telecommunications	4
Utilities	1

Total sample size: 47 Companies

7.5 Research Method

In order to explore the phenomenon under investigation the research took a two-tiered approach. First, information was gathered by analyzing the annual reports, for the fiscal years ended 2002 and 2003, to determine the type and nature of corporate social and environmental disclosures being provided in the traditional reporting medium. For this purpose, all sections of the annual report were carefully examined to note the presence of any social or environmental disclosures. It may be worth noting, at this point, that it was considered important that the research should not be restricted entirely to annual reports published in English, as this might introduce a bias in the Egyptian sample. Of the 31 companies in the Egyptian sample, 28 publish English language annual reports. All companies represented in the Indian sample produce annual reports in English.

By relying on the tenets of bourgeois political economy and its spin-off legitimacy theory, it was argued in chapter two, that corporate social disclosures are mechanisms used by organisations to protect their own self-interests and deflect the attention and intervention of regulatory bodies. That is, companies make corporate social disclosures to advocate and enhance the entity's position and image, promote customer and community relations with the incentive of indirectly assisting to promote products and services. This, therefore, implies that companies are more likely to use additional mass media vehicles, such as the World Wide Web, in conjunction with annual reports to make corporate social disclosures. To measure the type and nature of corporate social disclosures on a corporation's web site, all relevant files were downloaded on the day of the release of that company's 2003 annual report. This procedure was adopted to increase reliability and to control for potential fluctuations due to timing differences when comparing results based on Web Site information relative to that in corresponding annual reports. Transcripts from files downloaded from Web Sites were subsequently printed to allow for the relevant analysis. Release dates of annual reports were obtained either directly from the company or the stock exchange on which the enterprise was listed.

7.6 The Research Instrument: Disclosure Index

Disclosure indices are extensive lists of selected items, which may be disclosed in company reports. Calculating an index score for a particular company has been used in accounting research to give a measure of the extent of disclosure, but not necessarily the quality of the disclosure. Indices have been used to show compliance with regulations, if the items in the index are so chosen or conversely to show the level of voluntary disclosure. The usefulness of the disclosure index as a measure of disclosure is critically dependant on the selection of items to be included in the index (Marston and Shrives, 1991).

Information can be divided into two broad categories: required disclosure and voluntary disclosure. Required disclosure is laid down by statute, professional regulations and listing requirements of the stock exchanges. In some parts of the Islamic world, Shari'ah, or Islamic law, as discussed in chapter five, may also require disclosure. Voluntary disclosure, in excess of the minimum, may arise where corporate perceptions of the benefits arising outweigh the costs.

Cooke and Wallace (1989) recognised explicitly the problem inherent in measuring financial disclosure. They state that financial disclosure is an abstract concept that cannot be measured directly. It does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car. Problems of validity and reliability are also a concern when using disclosure indices. The index scores awarded to companies can be considered to be reliable if another researcher can replicate the results. Since the scores are extracted from printed annual reports and other material, which remain constant over time, there is no obstacle to repetition. There may, however, be the problem of partial scoring and decisions as to whether a non-disclosed item was in fact applicable to a particular company.

The first step to constructing a disclosure index is the selection of items. Different user groups may tend to view different items as important. Information needs of different groups are likely to overlap even though the main focus may be different. Thus, the selection of items by authors often depends on the user group orientation of the index. Unless one is aware of the needs of a user, it would be difficult to measure the quality of information found in the annual report of any company.

The purpose of the study also has some bearing on the selection of items. If an international comparison were being carried out, the items selected would tend to differ from those selected for study within a single country. For studies such as this, voluntary disclosures can be identified and mandatory disclosures omitted from the index. Methods of selection generally include a review of the relevant literature and subsequently the relevant user group may be subjected to a survey. While existing indices may be used, most researchers adapt or tailor them to their own perceived needs. This is done in an attempt to create an index that is valid in the particular research environment being investigated. The number of items in any particular index has varied from as few as 17 to as many as 224.

Since different items of information can be perceived as having varying degrees of importance for the user group, the question of weighting the index items arises. Cooke used an unweighted index. He acknowledges the fact that different classes of users attach different weights to different items, however, since his research was not on one particular user group, but rather on all users, he decided that weighting would be unwieldy and probably futile. Cooke assumed that the subjective weights of the different user groups would average each other out. In support of his assertion, he relied on the findings of Spero (1979) who reported that attaching weights was irrelevant because those enterprises that are better at disclosing "important items" are also better at disclosing "less important items".

The issue of calculating index scores raises practical problems when using partial scoring. For example, in 1974, Buzby gave half credit for a general comment and full credit for a specific comment. In 1982, Wiseman rated disclosure according to degree of specificity. A score of three was given for items disclosed in quantitative terms, two was awarded for specific but non-quantitative information and one was given for items referred to only in general terms. This was also very subjective since it is not necessarily the case that a number is worth three times a comment.

A review of the relevant CSR literature led to the creation of a 36-item disclosure index shown in Appendix E. Four areas of social disclosure type were identified as **customer** related, **employee** related, **environment** related, and **community** related. Each of these four themes was further subdivided into a set of broadly discriminating topics. Any corporate social disclosures made by entities in their annual reports or on Web Sites were first classified by theme and then by topic. As no specific user group was of particular interest to the research, an un-weighted index was deemed appropriate. Having designed the disclosure index, extensive pre-testing was conducted on the instrument, as explained fully in the following section. Due to the problems inherent in partial scoring discussed in the previous section, a dichotomous procedure was used to calculate index scores. A non-disclosure results in a score of zero and disclosure results in a score of one.

The existence of disclosure in the annual reports and web sites of the sample companies was recorded, but not the proportion of space allocated to social disclosure. For each area, a 1 denoted an item of corporate social disclosure and a 0 denoted non-disclosure. As such, the data under study is nominal data and, therefore, non-parametric statistics were used to test the data, the results of which are shown in the following chapter.

The final area of analysis in this study relates to nature of disclosure. Disclosures were classified into one of three categories:

1. Purely descriptive (use of narratives only);
2. Non-financial (quantitative other than financial information); and
3. Financial.

The classification is merely a coding system and is not meant to imply that a number is worth three times a word. It is merely intended to give an indication of whether or not CSR disclosures are being linked to financial data. This approach is consistent with a number of past studies attempting to measure the nature of disclosure (Wiseman, 1982; Guthrie and

Parker, 1990; Zeghal and Ahmed, 1990; Walden and Schwartz, 1997; Williams and Pei, 1999).

7.7 The Pilot Study

A review of the relevant literature led to the creation of a 26 item index shown in Appendix D. Initial pre-testing of the index involved distribution of the research instrument to numerous academics, practicing accountants and auditors, in each of the three countries under study, in order to minimise any ambiguity and overlapping of meanings or interpretations. This was understandably of greater concern in Egypt and India than in the United Kingdom.

Despite having incorporated the feedback received, it was noted by some British respondents that the index had a dated feel to it. The entire process, from reviewing the literature to redistribution of the proposed research instrument was repeated twice more before consensus was reached regarding the 36-item index shown in Appendix E. Once finalised, the disclosure index was then pilot tested against a random sample of 10 annual reports from each country for fiscal year end 2001 not used in the study.

7.8 Summary

The methodology usually investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident (Yin, 1994). A research strategy should be chosen as a function of the research situation. Although each strategy has its own characteristics, there are overlapping areas, which bring complexity to the process of strategy selection. In order to avoid gross misfits between the desired outcome and the chosen strategy, Yin (1994) stresses that the type of question posed; the control over actual behavioural elements; and the degree of focus on historical or contemporary events are the conditions which should provide the grounds for strategy choice, as summarised in table 7.5 below. Based on the research questions identified in chapter one, a disclosure index was deemed appropriate for the current study.

Table 7.5: Research Strategies versus Characteristics

Strategy	Form of Research Question	Requires Control over Behavioural Events	Focus on Contemporary Events?
Experiment	How, Why	Yes	Yes
Survey	Who, What, Where, How many, How much	No	Yes
Archival analysis	How, Why	No	Yes/No
History	How, Why	No	No
Case study	How, Why (Exploratory What)	No	Yes

Source: Yin (1994)

This chapter commenced by articulating the research philosophy and identifying the relevant issues in cross-cultural management research. The chapter then documented the research samples in the UK, India and Egypt respectively. It continued by defining the research methodology and describing the research instrument. The chapter concluded by describing the extensive pre-testing techniques employed as well as the research pilot study.

Chapter Eight

Comparative Results: Nature, Type and Medium of Disclosure

8.1 Introduction

The purpose of this study, as explained in chapter one, was to advance understanding of CSR disclosure practices of both developed and developing countries at a nation-specific level, thereby broadening our understanding of how socioeconomic factors impact a country's financial accounting and reporting in general and social and ethical disclosures in particular. This research set out to answer the following questions:

1. What CSR related disclosures are being made voluntarily by listed corporations in the UK, India and Egypt?
2. In addition to annual reports, what, if any, CSR disclosures are being made?
3. Are disclosures industry sensitive?
4. Do disclosures differ by reporting medium?
5. Do disclosures differ based on ownership type?
6. What cultural aspects influence the reporting decision?
7. Is CSR disclosure a universal or culture-specific phenomenon?

The first half of this chapter presents the comparative results for the three nations under study, while the second half of the chapter discusses fully similarities as well as differences in the nature, type and medium of disclosure.

8.2 Results: CASE Top 100

8.2.1 Annual Reports

Table 8.1 Panel A: Ownership Type

	Frequency	Percent	Valid Percent	Cumulative Percent
Private	15	48.4	48.4	48.4
Government	16	51.6	51.6	100
Total	31	100.0	100.0	

While the overall sample consisted of an approximately equal number of private and government owned corporate entities, some industries were not as evenly represented as others. This is due to the stronghold the Egyptian government still has on certain industries, such as textiles and oil and gas. Panel B depicts the sample breakdown by industry segment.

Table 8.1 Panel B: Industry Segment

	Frequency	Percent	Valid Percent	Cumulative Percent
Chemicals	2	6.5	6.5	6.5
Cement	5	16.1	22.6	22.6
Construction Materials	10	32.25	54.9	54.9
Food, Beverage and Tobacco	5	16.1	71.0	71.0
Gas and Oil	1	3.2	74.3	74.3
Pharmaceuticals	4	12.9	87.2	87.2
Telecommunications	3	9.7	96.9	96.9
Textiles	1	3.1	100.0	100.0
Total	31	100.0		

Table 8.1 Panel C: Nature of Disclosure- 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
Non-Disclosing	8	25.8	25.8	25.8
Descriptive	16	51.6	51.6	77.4
Quantitative/ Non-Financial	3	9.7	9.7	87.1
Financial	4	12.9	12.9	100.0
Total	31	100.0	100.0	

Table 8.1 Panel D: Nature of Disclosure- 2003

	Frequency	Percent	Valid Percent	Cumulative Percent
Non-Disclosing	8	25.8	25.8	25.8
Descriptive	16	51.6	51.6	77.4
Quantitative/ Non-Financial	3	9.7	9.7	87.1
Financial	4	12.9	12.9	100.0
Total	31	100.0	100.0	

With approximately 75% of the Egyptian sample disclosing some social or environmental information in their annual reports, there is reason for optimism as to the future of CSR reporting in Egypt. However, as shown in panels C and D, the majority of disclosures were overwhelmingly descriptive and self-laudatory in nature. Only 13% of sample disclosures were financially quantified. As suggested by Ingram & Frazier (1983) and supported by Ness and Mirza (1991) and Belal (2001), descriptive information is monitored and controlled less rigorously than financial information, indicating that managers have considerable choice as to the social and environmental information they wish to disclose, lending support to the argument that CSR disclosures are made for legitimating purposes.

Furthermore, all eight non-disclosing companies in the sample were government-owned enterprises. That is to say that 100% of private companies listed on the CASE disclose some form of social or environmental information, as compared with only 50% of government-owned entities. Of the 36 items included in the disclosure index, only seven were found to be significantly affected by ownership type at the 5% significance level. Table 8.2 depicts the results of the ANOVA test.

Table 8.2 ANOVA Results- Egyptian Sample- Ownership

Disclosure Item	F Value	Significance
General Employee Policy	***12.454***	***.001***
Compensation, Benefits and Rewards	***5.443***	***.027***
Training, Development and Career Planning	***10.656***	***.003***
Employee Assistance Programmes	2.677	.113
Occupational Health and Safety	.252	.619
Relationship with Unions	-	-
Absenteeism and Turnover	***10.656***	***.003***
Leaves of Absence	1.069	.310
Termination, Layoffs and Appeals	-	-
Retirement and Termination Counseling	-	-
Equity and Discrimination	-	-
Women in Management/Board	2.303	.140
Employee Communication	1.565	.221
General Customer Policy	2.836	.103
Customer Communications/Services	***4.780***	***.037***
Product Safety	.744	.395
Responsible Consumerism	1.272	.269
Environmental KPIs	2.696	.111
Conservation of Energy and Materials	.304	.585
Environmental Assessment of Capital Projects	2.836	.103
Environmental Audit/ISO 14000	***6.328***	***.018***
Recycling and Waste Management	.002	.964
Greening Policies	1.272	.269
Sustainability Initiatives	2.418	.131
Mission, Purpose or Corporate Code	1.527	.226
Public Health, Safety and Protection	1.565	.221
Public Policy Involvement	.935	.341
Community Relations	.787	.382
Social Investment and Donations	***10.656***	***.003***
Fair Competition/Anti-trust	-	-
Anti-corruption/Bribery	-	-
Corporate Governance Statement	3.742	.063
Monitoring/Compliance	-	-
Reporting Guidelines	-	-
International Awards	-	-
External Verification/Assurance	-	-

The proposition that private corporations disclose more than government owned entities, outlined in chapter one, clearly holds both across industry segments and across all four types of social information in the Egyptian sample.

Table 8.3 Panel A: Stand Alone Reports - 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
None	27	87.1	87.1	87.1
Environmental	2	6.5	6.5	93.5
Sustainability	1	3.2	3.2	96.8
Combined CSR/Sustainability	1	3.2	3.2	100.0
Total	31	100.0	100.0	

Table 8.3 Panel B: Stand Alone Reports - 2003

	Frequency	Percent	Valid Percent	Cumulative Percent
None	27	87.1	87.1	87.1
Environmental	2	6.5	6.5	93.5
Sustainability	1	3.2	3.2	96.8
Combined CSR/Sustainability	1	3.2	3.2	100.0
Total	31	100.0	100.0	

With fewer than 13% of the sample providing stand alone reports of any kind, the 'business case for CSR' has clearly not yet been made in Egypt. The majority of listed companies in Egypt are, like Friedman (1970), choosing to interpret social issues and social responsibilities to mean non-business issues and non-business responsibilities.

Table 8.4 CASE 100 Annual Report Disclosures

	CSR Disclosure Item	Annual Report 2002	Annual Report 2003
1	**Employee Related**		
1.1	General Policy	35.5%	45.2%
1.2	Compensation, Benefits and Rewards	12.9	12.9%
1.3	Training and Development/ Career Planning	29.0	29.0%
1.4	Employee Assistance Programs	41.9	38.7%
1.5	Occupational Health and Safety/ Health Promotion	41.9	41.9%
1.6	Relationships with Unions	0%	0%
1.7	Absenteeism and Turnover	29.0	29.0%
1.8	Leaves of Absence	0%	3.2%
1.9	Termination, Layoffs, Redundancy and Appeals	0%	0%
1.10	Retirement and Termination Counselling	0%	0%
1.11	Employment Equity and Diversity	0%	0%
1.12	Women in Management and on the Board	3.2%	6.5%
1.13	Employee Communication	35.5%	35.5%

2	**Customer Related**		
2.1	General Policy	25.8%	35.5%
2.2	Customer Communications/ Services/ Complaints	29.0%	32.3%
2.3	Product Safety	38.7%	38.7%
2.4	Responsible Consumerism Promotion	0%	12.9%
3	**Environment Related**		
3.1	Environmental KPIs	51.6%	51.6%
3.2	Conservation of Energy and Materials	19.4%	16.1%
3.3	Environmental Assessment of Capital Projects	32.3%	32.3%
3.4	Environmental Audit/ ISO 14000	38.7%	38.7%
3.5	Recycling and Waste Management	6.5%	6.5%
3.6	Greening Policies/ Efforts	6.5%	12.9%
3.7	Sustainability Initiatives	16.1%	16.1%
4	**Public Stakeholder Related**		
4.1	Mission, Purpose or Corporate Code	29.0%	41.9%
4.2	Public Health, Safety and Protection	35.5%	35.5%
4.3	Public Policy Involvement	0%	3.2%
4.4	Community Relations	51.6%	51.6%
4.5	Social Investment and Donations	38.7%	41.9%
4.6	Fair Competition/ Anti-Trust	0%	0%
4.7	Anti-corruption/Bribery	0%	0%
4.8	Corporate Governance	9.7%	9.7%
5	**Benchmarking**		
5.1	Compliance (Combined Code, etc)	0%	0%
5.2	Reporting Guidelines (GRI, etc)	0%	0%
5.3	International Awards	0%	0%
5.4	External Verification/ Assurance	0%	0%

As shown in Table 8.4, one of the most apparent shortcomings of CSR disclosures in Egypt is their lack of comparability with their international counterparts. Not only are there no references to compliance with any recognised international standards or initiatives, there is also no mention of compliance with local laws, such as the Environmental Protection Act of 1994 or the listing requirements (see Appendix F) of the CASE, which severely hinders inter-company comparison and benchmarking.

8.2.2 Web Sites

Of the 31 listed companies used in the Egyptian sample, 18 had useable World Wide Web sites, a penetration rate of approximately 58%. Panels A through D contain descriptive statistics for the Egyptian Web sample.

Table 8.5 Panel A: Ownership Type

	Frequency	Percent	Valid Percent	Cumulative Percent
Private	10	55.6	55.6	55.6
Government	8	44.4	44.4	100
Total	18	100.0	100	

Table 8.5 Panel B: Industry Segment

	Frequency	Percent	Valid Percent	Cumulative Percent
Chemicals	1	5.6	5.6	5.6
Construction Materials	6	33.3	33.3	38.9
Food, Beverage and Tobacco	3	16.7	16.7	55.6
Gas and Oil	1	5.6	5.6	61.1
Pharmaceuticals	3	16.7	16.7	77.8
Telecommunications	3	16.7	16.7	94.4
Textiles	1	5.6	5.6	100.0
Total	18	100.0	100.0	

Table 8.5 Panel C: Nature of Disclosure

	Frequency	Percent	Valid Percent	Cumulative Percent
Non-Disclosing	3	16.7	16.7	16.7
Descriptive	9	50.0	50.0	66.7
Quantitative/ Non-Financial	3	16.7	16.7	83.3
Financial	3	16.7	16.7	100.0
Total	18	100.0	100.0	

Table 8.5 Panel D: Stand Alone Reports

	Frequency	Percent	Valid Percent	Cumulative Percent
None	17	94.4	94.4	94.4
Combined CSR/Sustainability	1	5.6	5.6	100
Total	18			

Table 8.6 CASE 100 Web Disclosures

	CSR Disclosure Item	Percentage of Companies Disclosing via Website
1	**Employee Related**	
1.1	General Policy	55.6%
1.2	Compensation, Benefits and Rewards	16.7%
1.3	Training and Development/ Career Planning	55.6%
1.4	Employee Assistance Programs	55.6%
1.5	Occupational Health and Safety/ Health Promotion	50%
1.6	Relationships with Unions	0%
1.7	Absenteeism and Turnover	33.3%
1.8	Leaves of Absence	0%
1.9	Termination, Layoffs, Redundancy and Appeals	0%
1.10	Retirement and Termination Counselling	0%
1.11	Employment Equity and Diversity	0%
1.12	Women in Management and on the Board	5.6%
1.13	Employee Communication	50%
2	**Customer Related**	
2.1	General Policy	55.6%
2.2	Customer Communications/ Services/ Complaints	44.4%
2.3	Product Safety	66.7%
2.4	Responsible Consumerism Promotion	0%
3	**Environment Related**	
3.1	Environmental KPIs	55.6%
3.2	Conservation of Energy and Materials	44.4%
3.3	Environmental Assessment of Capital Projects	50%
3.4	Environmental Audit/ ISO 14000	55.6%
3.5	Recycling and Waste Management	11.1%
3.6	Greening Policies/ Efforts	33.3%
3.7	Sustainability Initiatives	33.3%
4	**Public Stakeholder Related**	
4.1	Mission, Purpose or Corporate Code	88.9%
4.2	Public Health, Safety and Protection	50%
4.3	Public Policy Involvement	5.6%
4.4	Community relations	66.7%
4.5	Social Investment and Donations	61.1%
4.6	Fair Competition/ Anti-Trust	0%
4.7	Anti-corruption/Bribery	0%
4.8	Corporate Governance	11.1%
5	**Benchmarking**	
5.1	Compliance (Combined Code, etc)	0%
5.2	Reporting Guidelines (GRI, etc)	0%
5.3	International Awards	0%
5.4	External Verification/ Assurance	0%

Table 8.6 clearly shows that Egyptian corporations are disclosing significantly more CSR-related information via their websites than via the traditional printed annual report. The seven items in the index relating to the natural environment witnessed the greatest overall increases in disclosure, with certain topics, such as sustainability initiatives and conservation of energy and materials increasing three-fold. Nearly 90% of the sample included a mission, purpose or corporate code of conduct on their Internet site as compared with only 42% in the same year's printed annual report. The Web also saw the first disclosure by any Egyptian company into the previously taboo area of public policy involvement.

Although the disclosures were still overwhelmingly descriptive and stand alone reports almost nonexistent, this nonetheless lends support to the political economy argument that corporate social disclosures are mechanisms used by organisations to protect their own self-interests and deflect the attention and intervention of regulatory bodies, and as such will seek out alternative communication media to make corporate social disclosures.

Orascom Construction Industries, ranked fifth on the CASE by market capitalization, boasts one of the first stand-alone CSR reports to come out of Egypt. The following excerpts, taken from their dedicated CSR website, another new frontier for Egyptian companies, highlight the issues seen as most pressing in the Egyptian business environment. Although CSR reporting has a long way to go before Egyptian reports are truly comparable with their international counterparts, Orascom Construction, among others, gives reason to be optimistic. While they may not as of yet be completely in line with international best practices regarding CSR disclosures, with references to the UN Global Compact, employee turnover statistics, and financially quantified sustainable development initiatives, progressive Egyptian companies are at least making an effort to speak the same language.

Mission, Purpose, Corporate Code

Orascom Construction Industries is a publicly listed corporation owned by thousands of shareholders. We employ thousands of people and provide goods and services to thousands of customers in many countries. What we do and how we do it can have an impact on the lives of every one of our shareholders, employees, customers, business partners and those in the communities where we operate.

We recognize that we have a social responsibility to our stakeholders and are committed to acting in accordance with international best practices for corporate governance, corporate citizenship and sustainable development. OCI, its subsidiaries and affiliates demand that all their employees conduct themselves in accordance with the highest standard of professional conduct and ethics.

OCI has adopted corporate governance guidelines, which comply with all applicable laws and stock exchange regulations. We have adopted strict employee health, safety and environmental policies, have formed a charitable foundation to provide educational opportunities for young people and have joined the UN Global Compact to promote human rights, labour standards, environmental protection and anti-corruption efforts.

Working together with our employees, our international partners and our customers, we are helping to build a brighter future in developing countries around the world.

Relations with Shareholders

The Board of Directors (the "Board") of Orascom Construction Industries S.A.E. (the "Company") believes that communication with shareholders, institutional investors, the financial community, the media, and other third parties is best handled by the Chief Executive Officer and designated management representatives of the Company. The Company operates a structured program of investor relations, based on formal announcements and publications relating to significant events and financial results, in compliance with applicable securities laws and stock exchange regulations.

To ensure fair disclosure to all stakeholders at the same time, the Company refrains from disclosing any information specifically designated to financial analysts, financial institutions or other parties before disclosing the information to the market as a whole. Directors, executive officers and employees are required to maintain the confidentiality of information entrusted to them by the Company or its customers, except when disclosure is authorized or legally mandated.

The Company has appointed Ashraf Abdel Momen and Hassan Badrawi as its main Investor Relations Officers whose responsibility is to provide information and answer queries of stock exchange officials, shareholders and institutional investors. Information about the Company including interim and full year financial results and other major announcements is also published on the Company's website www.orascomci.com.

The Chairman of the Board, Chief Executive Officer, senior independent director and other authorized directors and investor relations personnel do maintain a dialogue with representatives of institutional and other shareholders regarding long-term business strategies, financial performance and corporate governance in order to establish a mutual understanding of objectives. The annual general meeting also provides an opportunity for individual shareholders to meet and communicate with the Board to develop a better understanding of the Company's operations and prospects. All directors are expected to attend the annual general meeting absent exceptional cause. Shareholders who wish to communicate with the Board may correspond in writing with the senior independent director at the principal office of the Company. The senior independent director will notify the Board or the chairperson of the relevant committee of the Board regarding those matters that are appropriate for further action or discussion.

Code of Business Conduct and Ethics

This Code of Business Conduct and Ethics (the "Code") contains the policies that relate to the legal and ethical standards of conduct that the directors, executive officers and employees of Orascom Construction Industries S.A.E. (the "Company") are expected to comply with while carrying out their duties and responsibilities on behalf of the Company.

This Code is intended to focus the Board of Directors (the "Board") and management on areas of ethical risk, provide guidance to personnel to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help to foster a culture of honesty and accountability.

No code or policy can anticipate every situation that may arise. The Company expects each director, executive officer and employee to act with honesty and integrity, to exercise independent professional judgment and to deter wrongdoing in the conduct of all duties and responsibilities on behalf of the Company.

Conflicts of Interest

Directors, executive officers and employees should avoid conflicts of interest between themselves and the Company. A "conflict of interest" can occur when the private interest of a director, executive officer or employee interferes in any way – or even appears to interfere – with the interests of the Company as a whole. A conflict situation can arise when a director, executive officer or employee takes actions or has interests that may make it difficult to perform his or her company work objectively and effectively. Conflicts of interest also arise when a director, executive officer or employee, or a member of his or her immediate family, receives improper personal benefits as a result of his or her position in the Company. Any situation that involves, or may reasonably be expected to involve, a conflict of interest with the Company should be disclosed promptly to appropriate personnel or to the Chairperson of the Audit Committee of the Board.

Corporate Opportunities

Directors, executive officers and employees are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information or position, (b) using corporate property, information or position for personal gain, and (c) competing with the Company.

Confidential Information

Directors, executive officers and employees should maintain the confidentiality of information entrusted to them by the Company or its customers, except when disclosure is authorized or legally mandated. "Confidential information" includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed.

Fair Dealing

Directors, executive officers and employees should endeavour to deal fairly with the Company's customers, suppliers, competitors and employees. None should take advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

Sustainable Development

Sustainable development is about improving the quality of life for everyone, now and for generations to come. Orascom Construction Industries believes that the way we operate, the goods we produce and the services we provide are helping to improve the quality of life and build a brighter future for people in the communities where we operate.

Orascom Construction Industries has operations in 14 countries throughout the developing world. We believe strongly in supporting and protecting the local communities in which we live and work.

Through our activities, we contribute to the economic and social well-being of a range of stakeholders including our employees, customers, business partners, governments and the community as a whole. We also seek to minimize the environmental impact of our activities and to promote sustainable development by conserving energy, materials and resources through minimizing consumption, maximising efficiency and effectively managing waste.

8.3 Results: BSE Top 100

8.3.1 Annual Reports

Table 8.7 Panel A: Ownership Type

	Frequency	Percent	Valid Percent	Cumulative Percent
Private	30	64.0	64.0	64.0
Government	17	36.0	36.0	100.0
Total	47	100.0	100.0	

The study by Singh and Ahuja (1983) on Indian CSR was the first ever study from the context of a developing country in general and South Asian countries in particular. Singh and Ahuja studied 40 annual reports of public sector companies for the fiscal year 1975/76.

Significantly, Singh and Ahuja (1983) did not study the private sector practices, which are now making a significant contribution to the Indian economy, though Hegde *et al.* (1997) report that most Indian private companies do not make formal social disclosures, as they are not statutorily required. With the increased emphasis on privatisation, recent attention of the global companies to the vast Indian and nearby markets and the relatively well developed stock market, that is no longer the case, as evidenced by the almost 2:1 ratio of private to government owned enterprises in the sample. Distribution by industry segment is also more equitable than in the Egyptian sample as depicted in panel B below.

Table 8.7 Panel B: Industry Segment

	Frequency	Percent	Valid Percent	Cumulative Percent
Automotive/Aerospace	4	8.5	8.5	8.5
Chemicals	6	12.75	12.75	21.25
Construction Materials	7	15.0	15.0	36.25
Electronics and Engineering	3	6.4	6.4	42.65
Food, Beverage and Tobacco	2	4.25	4.25	46.9
Gas and Oil	6	12.75	12.75	59.65
Mining	5	10.6	10.6	70.25
Pharmaceuticals	9	19.0	19.0	89.25
Telecommunications	4	8.5	8.5	97.75
Utilities	1	2.25	2.25	100.0
Total	47	100.0	100.0	

Unlike the Egyptian sample, ownership does not appear to be a statistically significant variable in the CSR disclosure decision of Indian corporations. Of the 36 items in the index, only anti-corruption/bribery, with an F value of 4.599 are significantly affected by ownership type at the 5% level. Table 8.8 depicts the results of the ANOVA test on the Indian sample.

Table 8.8 ANOVA Results- Indian Sample- Ownership

Disclosure Item	**F Value**	**Significance**
General Employee Policy	.003	.957
Compensation, Benefits and Rewards	1.612	.18
Training, Development and Career Planning	1.026	.317
Employee Assistance Programmes	.684	.413
Occupational Health and Safety	.370	.546
Relationship with Unions	.139	.717
Absenteeism and Turnover	-	-
Leaves of Absence	-	-
Termination, Layoffs and Appeals	1.913	.174
Retirement and Termination Counseling	.003	.958
Equity and Discrimination	.015	.902
Women in Management/Board	.003	.958
Employee Communication	2.125	.152
General Customer Policy	1.013	.320
Customer Communications/Services	.202	.651
Product Safety	.528	.471
Responsible Consumerism	-	-
Environmental KPIs	.620	.435
Conservation of Energy and Materials	1.196	.280
Environmental Assessment of Capital Projects	.007	.932
Environmental Audit/ISO 14000	.344	.561
Recycling and Waste Management	.124	.727
Greening Policies	1.513	.225
Sustainability Initiatives	1.489	.229
Mission, Purpose or Corporate Code	.124	.727
Public Health, Safety and Protection	.015	.902
Public Policy Involvement	-	-
Community Relations	1.026	.317
Social Investment and Donations	2.059	.158
Fair Competition/Anti-trust	1.913	.174
Anti-corruption/Bribery	***4.599***	***.043***
Corporate Governance Statement	.327	.570
Monitoring/Compliance	.141	.710
Reporting Guidelines	.528	.471
International Awards	.029	.899
External Verification/Assurance	.177	.676

Table 8.9 ANOVA Results- Indian Sample- Industry Membership

Disclosure Item	F Value	Significance
General Employee Policy	1.545	.176
Compensation, Benefits and Rewards	1.369	.242
Training, Development and Career Planning	1.293	.277
Employee Assistance Programmes	.993	.457
Occupational Health and Safety	1.144	.358
Relationship with Unions	.888	.536
Absenteeism and Turnover	-	-
Leaves of Absence	-	-
Termination, Layoffs and Appeals	.654	.728
Retirement and Termination Counseling	.403	.911
Equity and Discrimination	1.512	.186
Women in Management/Board	***7.233***	***.000***
Employee Communication	1.321	.264
General Customer Policy	1.204	.323
Customer Communications/Services	.684	.703
Product Safety	.804	.603
Responsible Consumerism	-	-
Environmental KPIs	.921	.510
Conservation of Energy and Materials	.746	.651
Environmental Assessment of Capital Projects	1.392	.232
Environmental Audit/ISO 14000	.791	.614
Recycling and Waste Management	2.001	.074
Greening Policies	.739	.657
Sustainability Initiatives	.824	.670
Mission, Purpose or Corporate Code	2.148	.406
Public Health, Safety and Protection	1.058	.413
Public Policy Involvement	-	-
Community Relations	1.123	.371
Social Investment and Donations	1.592	.161
Fair Competition/Anti-trust	.804	.603
Anti-corruption/Bribery	.792	.613
Corporate Governance Statement	***2.313***	***.040***
Monitoring/Compliance	1.931	.084
Reporting Guidelines	1.031	.431
International Awards	1.238	.305
External Verification/Assurance	1.789	.111

Table 8.10 Panel A: Nature of Disclosure 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
No Disclosure	1	2.1	2.1	2.1
Descriptive	26	55.5	55.5	57.6
Quantitative/ Non-Financial	6	12.75	12.75	70.35
Financial	14	29.65	29.65	100.0
Total	47	100.0	100.0	

Table 8.10 Panel B: Stand Alone Reports 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
None	40	85.0	85.0	85.0
Environmental	2	4.2	4.2	89.2
CSR	3	6.6	6.6	95.8
Sustainability	1	2.1	2.1	97.9
Combined Env/CSR	1	2.1	2.1	100.0
Total	47	100.0	100.0	

Table 8.10 Panel C: Nature of Disclosure 2003

	Frequency	Percent	Valid Percent	Cumulative Percent
No Disclosure	1	2.1	2.2	2.2
Descriptive	25	53.0	53.0	55.2
Quantitative/ Non-Financial	3	6.6	6.6	61.8
Financial	18	38.3	38.3	100.0
Total	47	100.0	100.0	

Table 8.10 Panel D: Stand Alone Reports 2003

	Frequency	Percent	Valid Percent	Cumulative Percent
None	39	83.0	83.0	83.0
Environmental	3	6.6	6.6	89.6
CSR	4	8.3	8.3	97.9
Sustainability	1	2.1	2.1	100.0
Total	47	100.0	100.0	

In an almost identical scenario with Egypt, only 17% of the Indian sample had stand alone CSR related reports. However, a significant difference in the two samples lies in the nature of the disclosures. While 53% of the companies in the Indian sample only disclosed CSR information of a descriptive nature, 7% made quantitative disclosures and more significantly, 38% of the sample made financial disclosures regarding their CSR activities and initiatives.

Table 8.11 BSE 100 Annual Report Disclosures

	CSR Disclosure Item	Annual Report 2002	Annual Report 2003
1	**Employee Related**		
1.1	General Policy	61.5%	63.0%
1.2	Compensation, Benefits and Rewards	11.2%	15.2%
1.3	Training and Development/ Career Planning	41.3%	47.8%
1.4	Employee Assistance Programs	10.9%	13.0%
1.5	Occupational Health and Safety/ Health Promotion	45.7%	50.0%
1.6	Relationships with Unions	6.5%	15.2%
1.7	Absenteeism and Turnover	0%	0%
1.8	Leaves of Absence	0%	0%
1.9	Termination, Layoffs, Redundancy and Appeals	0%	0%
1.10	Retirement and Termination Counselling	2.25%	6.5%
1.11	Employment Equity and Diversity	23.9%	23.9%
1.12	Women in Management and on the Board	6.75%	6.5%
1.13	Employee Communication	17.4%	17.4%
2	**Customer Related**		
2.1	General Policy	35%	34.8%
2.2	Customer Communications/ Services/ Complaints	0%	4.3%
2.3	Product Safety	0%	2.2%
2.4	Responsible Consumerism Promotion	0%	0%
3	**Environment Related**		
3.1	Environmental KPIs	30.4%	39.1%
3.2	Conservation of Energy and Materials	54.3%	60.9%
3.3	Environmental Assessment of Capital Projects	28.3%	30.4%
3.4	Environmental Audit/ ISO 14000	37.0%	43.5%
3.5	Recycling and Waste Management	19.6%	21.7%
3.6	Greening Policies/ Efforts	6.5%	15.2%
3.7	Sustainability Initiatives	32.6%	37.0%
4	**Public Stakeholder Related**		
4.1	Mission, Purpose or Corporate Code	76.1%	78.3%
4.2	Public Health, Safety and Protection	23.5%	23.5%
4.3	Public Policy Involvement	0%	0%
4.4	Community relations	46.0%	49.2%
4.5	Social Investment and Donations	34.8%	39.1%
4.6	Fair Competition/ Anti-Trust	0%	0%
4.7	Anti-corruption/Bribery	0%	4.5%
4.8	Corporate Governance	74.0%	74.0%
5	**Benchmarking**		

5.1	Compliance (Combined Code, etc)	41.0%	41.0%
5.2	Reporting Guidelines (GRI, etc)	2.2%	2.2%
5.3	International Awards	30.1%	32.6%
5.4	External Verification/ Assurance	8.5%	8.5%

Table 8.11 again highlights the differences between the Egyptian and Indian samples. The Singh and Ahuja (1983) study covered 33 social disclosure items including social overheads, environmental control measures, charitable activities and community involvement. The study examined the extent of CSR in India and the relationship between CSR and company age, size, profitability and industrial grouping. It concluded that approximately 40 percent of the companies disclosed more than 30 percent of the total social disclosure items included in the survey. While the disclosure index items are not identical, they are highly comparable. As the results shown in table 8.11 demonstrate, with 98% of the sample making social and environmental disclosures, India has made great strides in putting CSR firmly on the reporting agenda.

8.3.2 Web Sites

Of the 47 listed companies used in the Indian sample, 45 had useable World Wide Web sites, a penetration rate of approximately 96%. Panels A through D contain descriptive statistics for the Indian Web sample.

Table 8.12 Panel A: Ownership Type

	Frequency	Percent	Valid Percent	Cumulative Percent
Private	30	66.7	66.7	66.7
Government	15	33.3	33.3	100
Total	45	100.0	100.0	

Table 8.12 Panel B: Industry Segment

	Frequency	Percent	Valid Percent	Cumulative Percent
Automotive/Aerospace	5	11.1	11.1	11.1
Chemicals	5	11.1	11.1	22.2

Construction Materials	6	13.3	13.3	35.6
Electronics and Engineering	3	6.7	6.7	42.2
Food, Beverage and Tobacco	2	4.4	4.4	46.7
Gas and Oil	6	13.3	13.3	60.0
Mining	5	11.1	11.1	71.1
Pharmaceuticals	9	20.0	20.0	91.1
Telecommunications	4	8.9	8.9	100
Total	45	100.0	100.0	

Table 8.12 Panel C: Nature of Disclosure

	Frequency	Percent	Valid Percent	Cumulative Percent
Descriptive	11	24.4	24.4	24.4
Quantitative/ Non-Financial	9	20.0	20.0	44.4
Financial	25	55.6	55.6	100.0
Total	45	100.0	100.0	

As depicted in panel C, a significant difference in the Indian sample lies in the nature of the disclosure. 20% of the sample quantified their CSR disclosures while the majority of the sample, 55% disclosed CSR information of a financial nature via their Web site, as compared with 7% and 40%, respectively, via the annual report.

Table 8.12 Panel D: Stand Alone Reports

	Frequency	Percent	Valid Percent	Cumulative Percent
None	39	86.7	86.7	86.7
Environmental	3	6.7	6.7	93.3
CSR	2	4.4	4.4	97.8
Sustainability	1	2.2	2.2	100.0
Total	45	100.0	100.0	

Table 8.13 BSE 100 Web Disclosures

	CSR Disclosure Item	Percentage of Companies Disclosing via Website
1	**Employee Related**	
1.1	General Policy	84.4%
1.2	Compensation, Benefits and Rewards	35.6%
1.3	Training and Development/ Career Planning	66.7%
1.4	Employee Assistance Programs	28.9%
1.5	Occupational Health and Safety/ Health Promotion	68.9%
1.6	Relationships with Unions	20.0%
1.7	Absenteeism and Turnover	0%
1.8	Leaves of Absence	0%
1.9	Termination, Layoffs, Redundancy and Appeals	4.4%
1.10	Retirement and Termination Counselling	11.1%
1.11	Employment Equity and Diversity	44.4%
1.12	Women in Management and on the Board	8.9%
1.13	Employee Communication	33.3%
2	**Customer Related**	
2.1	General Policy	44.4%
2.2	Customer Communications/ Services/ Complaints	13.3%
2.3	Product Safety	13.3%
2.4	Responsible Consumerism Promotion	4.4%
3	**Environment Related**	
3.1	Environmental KPIs	51.1%
3.2	Conservation of Energy and Materials	66.7%
3.3	Environmental Assessment of Capital Projects	55.6%
3.4	Environmental Audit/ ISO 14000	42.2%
3.5	Recycling and Waste Management	31.1%
3.6	Greening Policies/ Efforts	37.8%
3.7	Sustainability Initiatives	57.8%
4	**Public Stakeholder Related**	
4.1	Mission, Purpose or Corporate Code	97.8%
4.2	Public Health, Safety and Protection	53.3%
4.3	Public Policy Involvement	15.6%
4.4	Community relations	82.2%
4.5	Social Investment and Donations	73.3%
4.6	Fair Competition/ Anti-Trust	2.2%
4.7	Anti-corruption/Bribery	11.1%
4.8	Corporate Governance	75.6%
5	**Benchmarking**	
5.1	Compliance (Combined Code, etc)	33.3%
5.2	Reporting Guidelines (GRI, etc)	2.2%
5.3	International Awards	46.7%
5.4	External Verification/ Assurance	8.9%

By relying on the tenets of bourgeois political economy and its spin-off legitimacy theory, it was argued in chapter two, that corporate social disclosures are mechanisms used by organisations to protect their own self-interests and deflect the attention and intervention of regulatory bodies. That is, companies make corporate social disclosures to advocate and enhance the entity's position and image, promote customer and community relations with the incentive of indirectly assisting to promote products and services. This, therefore, implies that companies are more likely to use additional mass media vehicles, such as the World Wide Web, in conjunction with annual reports to make corporate social disclosures. As was the case with the Egyptian sample, strong support for this argument can be found in the results of the Indian sample. Disclosure rates via the Web were significantly higher than those of the annual reports across all industry segments and all four areas of disclosure. Even issues that were completely absent in the print media, such as public policy involvement, were disclosed via the corporate web site. Of the 36 items in the index, only two items, namely leaves of absence and absenteeism and turnover were not disclosed on the web site of any company in the sample, as compared with nine and six items in the 2002 and 2003 annual reports, respectively.

Tata Steel provides one of the strongest reports from an emerging economy and is definitely India's top reporter. The report contains an extensive set of stakeholder concerns and issues, supported by numerical data, linking them with the company's response and strategic objectives. Tata Steel also provides one of very few Independent Assurance Reports. Excerpts from various sections of the report are included below.

SUPPLIERS

ENVIRONMENTAL PERFORMANCE OF OUR SUPPLIERS

Although supplier's environmental performance monitoring is not undertaken, stringent procedures have been developed under ISO-14001 for contractors, including strong punitive actions for defaulters. The procedure for monitoring contractors/suppliers compliance with Labour Laws also furnished under **Section-3.16.**

PRODUCTS & SERVICES

RECYCLING AND REUSE OF OUR PRODUCTS

Steel products are 100% recyclable in their life cycle. However, it is difficult to keep track after the product leaves the factory gate and hence information is not available. Tata Steel recycles scrap steel to the extent generated in the plants. During the reporting period 535,195 tonnes of scrap generated in the plant was recycled in the Steel Melting Shops against 319,637 tonnes during the year 01-02.

COMPLIANCE

ENVIRONMENTAL COMPLIANCE STATUS

Major complaints received during the year are furnished below;

- No penalty or fines have been imposed for non-compliance.
- The State Pollution Control Board (Jharkhand) served noticed to the company in the month of July 2003 for non-compliance of the direct finalized in the "Charter on Corporate Responsibility" for environmental protection by Central Pollution Control Board. The company representative attended the show cause notice in the office of Chairman, Jharkhand State Pollution Control Board and clarified the issues to their satisfaction and provided required information.
- Tata Steel has fixed up display board in a conspicuous place close to its works main entrance displaying various environmental related emission, discharge and wastes generated in the unit as per the directives of Hon'ble Supreme Court.
- On 9th January 2003 the BOD plant faced a great set back when one of the major units of the effluent treatment plant broke down stopping the treatment process completely. This was informed to State Pollution Control Board immediately as there was a major violation of statutory norms due to high level of ammonia, cyanide and phenol getting discharged out of works untreated. Innovative idea was used to tackle the situation and

keep running the plant along with major maintenance of treatment of effluent and meeting the statutory norms till 21.01.2003 when finally the plant came back to its normal auto operation mode.

- There were altogether 135 cases of non-compliances. Out of which 94 cases (69.63%) of non-compliances were with regard to emission of particulate matters from process stacks and discharge through works drain during reporting period.

AWARDS RECEIVED RELEVANT TO SOCIAL, ETHICAL, AND ENVIRONMENTAL PERFORMANCE

Among the important awards/recognitions received during the year were;

- Ranked second in Leadership Development among companies in Asia Pacific in a study conducted by Hewitt Associates.
- Received the TERI Award for Corporate Social Responsibility 02-03 in recognition of Corporate Leadership for good Corporate Citizenship and Sustainable Initiatives.
- Asia's Most Admired Knowledge Enterprise (MAKE) Award 2003.
- Global Business Coalition Award for Excellence in the community for HIV/AIDS.
- Ranked as the sixth best employer in India 2003 by M/s. Hewitt Associates.
- Best IT user in manufacturing sector by Nasscom and Economic Times (2003).
- Received a Certificate of Appreciation for Excellence in Cost Reduction 2003, at the Cost reduction programme organized by the Institute of Costs and Accounts, India.

BRIBERY AND CORRUPTION

All the Officers of Tata Steel have signed Tata Code of Conduct. Tata Code of Conduct has a specific clause pertaining to bribery and corruption. We have an Ethics Counsellor to ensure all the issues pertaining to ethics. During the year the concerns related to Code of Conduct were analysed by Ethics Counsellor and a summary is presented in the box.

EQUAL OPPORTUNITY PRACTICES

Tata Steel is an equal opportunity employer. This has been articulated in the Code of Conduct. All advertisements of Tata Steel related to recruitments strongly carry this message. During career progression also equal opportunities are given to all employees. The applications for employment do not carry columns like religion, province, and mother tongue. As a policy towards non-discrimination as per Tata Code of Conduct, new recruitments through Graduate

Trainee, System Trainee & Trade Apprentices ensure induction of female candidates also. Violation of equal opportunity policy is redressed through the grievance redressal mechanism and Ethics Counsellor. During the year the Ethics Counsellor received seventeen concerns related to equal opportunity employer violations, out of which on investigation three were confirmed.

INDEPENDENT ASSURANCE REPORT

To,
The Board of Directors,
The Tata Iron and Steel Company Limited,
Bombay House, 24 Homi Mody Street,
Mumbai - 400 001
India.

Introduction

We have been asked to provide assurance on selected data, graphs and statements of the Tata Iron and Steel Company Limited ("Tata Steel") contained in the Corporate Sustainability Report ("Report") for the period 1st April 2002 to 31st March 2003. The scope included providing assurance on:

a. The scope of the report/stakeholder engagement

b. Reporting systems and frameworks

c. Company policies

d. Governance structure and arrangements

e. Management systems and processes

The Report of Tata Steel has been produced both electronically and in print. The Corporate Sustainability Report 2003-04 and its contents are the responsibility of the management of Tata Steel, whilst the Independent Assurance Report, based on our assurance work performed, is the responsibility of PricewaterhouseCoopers Private Limited.

Select Sustainability Performance Indicators: Scope of the Review

In keeping with the objectives, we selected sustainability-economic, environmental and social- performance indicators for review by considering the key sustainability risks of Tata Steel and its subsidiary companies as well as by identifying those sustainability indicators most relevant to management and stakeholder-decision making processes. The selection of indicators was further contingent on our experience of the associated sustainability reporting systems and processes. Accordingly, the scope of our review included:

a. Review of certain statements and data relating to the Tata Steel's operations and to provision of limited assurance in respect of these statements and data;

b. Review of select on-site data collection process, data management and collation process and the assimilation of this data into the tables, graphs and statements presented in this Report; Checking of the internal control system, including monitoring and reporting procedures and whether it is planned expediently to support reliable disclosure in the Sustainability Report;

c. Assessment whether the Report provides an appropriate representation of existing policies in the areas of human resources, health, safety, security, environment and community involvement;

d. Checking of the data stated at the following indicators (collectively referred to as select sustainability performance indicators):

   - Total spent on non-core business infrastructure development (EC11)
   - Air emissions by type for Steel Works (EN 10)
   - Hazardous and solid waste for Steel Works (EN 11)
   - Recycling and reuse of water at Steel Works (EN 22)
   - Total environmental expenditures by type (EN 35)
   - Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors (HR 2)
   - Share of operating revenues from the area of operations that are redistributed to local communities (HR14)
   - Standard injury, lost day and absentee rates and work related fatalities (LA 7)

We planned and performed our work to obtain all information and explanations that we considered necessary to provide sufficient evidence for us to ascertain that the above indicators were consistent with the activities in the plant areas for the financial period; and were documented and stated in accordance with the guidelines stated under their environmental and social policies.

Basis for Assurance

There are no generally accepted international environmental, social and economic reporting standards. However, the contents of this Report have been *generally reported as per GRI*

Guidelines 2002. Accordingly, the Principles of and Guidelines on Corporate Sustainability Reporting published by Global Reporting Initiative (GRI) formed the basis for providing assurance.

Assurance procedures performed

In the absence of generally accepted international environmental, social and economic reporting standards, our approach was based on emerging best practices and underlying principles within international assurance engagements. In particular, our engagement was planned and conducted to obtain ***"moderate negative assurance"*** based on International Standards on Auditing - ISA 910.

Our work consisted of:

a. interviews with management responsible for environmental, marketing, safety, suppliers/partners, legal, human resource, finance and mining related issues;

b. examination of documentation on economic, environmental and social policies, practices, performance, governance etc;

c. a desktop review of external economic, environmental and social issues facing The Tata Iron and Steel Company Limited;

d. An understanding and assessment of systems for data generation, collection, analysis, consolidation and reporting at site, business unit, divisional and group level;

e. review and sample testing of eight of the reported indicators and associated statements presented in the Report at EC11, EN10, EN11, EN22, EN 35, HR 2, HR 14, and LA 7, as mentioned above in light of the findings from the desktop review, site visits, and our cumulative knowledge of the industry and the Group's operations;

f. Review of conclusions drawn from data and corresponding statements for select indicators in the context of the robustness of data.

Case studies and major stakeholder groups were not involved in planning and/or during the assurance process.

Parties responsible for Assurance Engagement

Our engagement was carried out by a multi-disciplinary team of requisite skills and experience. The assurance engagement was led by Dr. P. Ram Babu, a Sustainability Systems expert, employed with PricewaterhouseCoopers Private Limited, with over 25 years experience in Corporate Sustainability Management and Reporting Systems. The engagement was executed by Mr. Surojit Bose, Dr. Muna Ali and Mr. Ritwik Bhaumik, employed with PricewaterhouseCoopers Private Limited, with 7-10 years of experience.

Conclusions

a. On the basis of the work undertaken, nothing came to our attention to suggest that the information cited at indicators EC11, EN10, EN11, EN22, EN 35, HR 2, HR 14, and LA 7 in the Report has not been fairly stated.

b. The Report is generally in line with Global Reporting Initiatives Guidelines of 2002 on preparation of Corporate Sustainability Report.

c. The internal control and management systems are modelled on best practices and on ISO based quality and environment management system. In general, established data collection, collation and interpretation processes provide basis for credible reporting of performance.

d. The full time Directors on the Board, Dy. Managing Director (Steel) and Dy. Managing Director (Corporate Services) are responsible providing guidance and review of various aspects of sustainability performance. The Board is regularly informed of the sustainability performance and how the business is addressing the concerns and expectations of stakeholders.

e. The management has exhibited commitment to progressively ensuring uniformity in reporting entity and period across all indicators in subsequent reports; this is apparent from the consistent coverage of this report over the previous report, for most of the indicators.

f. Tata Steel has adopted several steps to encourage adoption of sustainability principles across its supply chain. These include mandatory disclosure by suppliers, Supplier Transformation Process, Vendor Bank Financing, Online Acknowledgement of Tata Code of Conduct, etc.

Some opportunities for improvement in future reporting are as follows:

- While some units showed evidence of integrated electronic data management and communication systems in compiling sustainability performance indicators, others were less advanced in this respect.

- Hence, completeness of data reported in some instances was found to be impaired due to lack of data availability at various units and accordingly a reporting entity limitation has been resorted to in such cases.

- Further, in case of some indicators, information reported on gross basis has not been provided for the entire reporting entity. Information in such instances has been provided disaggregated for several of the units of the reporting entity together with an entity limitation.

- Tata Steel has employed considerable resources for development of non-core business infrastructure development. However, in the absence supporting quantifiable data, this indicator could not be adequately reported.

The management has committed to improve monitoring systems to assess adherence to various relevant policies/codes articulated by the company, including the Tata Code of Conduct.

8.4 Results: LSE Top 100

8.4.1 Annual Reports

Table 8.14 Panel A: Industry Segment

	Frequency	Percent	Valid Percent	Cumulative Percent
Automotive/Aerospace	4	8.8	8.8	8.8
Chemicals	3	6.6	6.6	15.4
Construction Materials	2	4.4	4.4	19.8
Electronics and Engineering	3	6.6	6.6	26.4
Food, Beverage and Tobacco	14	31.1	31.1	57.5
Gas and Oil	4	8.8	8.8	66.3
Mining	4	8.8	8.8	75.1
Pharmaceuticals	3	6.6	6.6	81.7
Telecommunications	3	6.6	6.6	88.3
Utilities	5	11.7	11.7	100.0
Total	45	100.0	100.0	

Table 8.14 Panel B: Nature of Disclosure 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
Descriptive	11	24.5	24.5	24.5
Quantitative/ Non-Financial	8	18.0	18.0	42.5
Financial	26	57.5	57.5	100.0
Total	45	100.0	100.0	

Table 8.14 Panel C: Nature of Disclosure 2003

	Frequency	Percent	Valid Percent	Cumulative Percent
Descriptive	9	20.0	20.0	20.0
Quantitative/ Non-Financial	7	15.5	15.5	35.5
Financial	29	64.5	64.5	100.0
Total	45	100.0	100.0	

Table 8.14 Panel D: Stand Alone Reports 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
None	20	44.5	44.5	44.5
Environmental	10	22.25	22.25	66.75
CSR	5	11.25	11.25	78.0
Sustainability	3	6.5	6.5	84.5
Environment and CSR Reports	2	4.5	4.5	89.0
CSR and Sustainability Reports	1	2.25	2.25	91.25
Corporate Citizenship Report	1	2.25	2.25	93.5

Industry Specific Report	3	6.5	6.5	100.0
Total	45	100.0	100.0	

Table 8.14 Panel E: Stand Alone Reports 2003

	Frequency	Percent	Valid Percent	Cumulative Percent
None	11	24.5	24.5	24.5
Environmental	5	11.25	11.25	35.75
CSR Report	8	17.75	17.75	53.5
Sustainability	9	20.0	20.0	73.5
Environment and CSR Reports	2	4.5	4.5	78.0
Environment and Sustainability	1	2.25	2.25	80.25
CSR and Sustainability Reports	2	4.5	4.5	84.75
Corporate Citizenship Report	3	6.5	6.5	91.25
Industry Specific Report	4	8.75	8.75	100.0
Total	45	100.0	100.0	

Although the rationale behind the inclusion of reports for two fiscal years was to ensure data completeness rather than an attempt to detect reporting trends, panels D and E highlight two significant findings: **(1)** a dramatic increase in the number of stand alone reports and **(2)** a shift away from a purely environmental focus to the wider issues of sustainability and corporate citizenship. It is possible, if not probable, that initiatives such as the GRI, AA1000, and the UN Global Compact may be credited with these changes.

Table 8.15 FTSE 100 Annual Report Disclosures

	CSR Disclosure Item	Annual Report 2002	Annual Report 2003
1	**Employee Related**		
1.1	General Policy	73.5%	77.5%
1.2	Compensation, Benefits and Rewards	11.5%	22.5%
1.3	Training and Development/ Career Planning	40.5%	57.5%
1.4	Employee Assistance Programs	2.0%	5.0%
1.5	Occupational Health and Safety/ Health Promotion	87.5%	95.0%
1.6	Relationships with Unions	6.5%	12.5%
1.7	Absenteeism and Turnover	39.5%	52.5%
1.8	Leaves of Absence	2.5%	5.0%
1.9	Termination, Layoffs, Redundancy and Appeals	2.5%	8.0%
1.10	Retirement and Termination Counselling	7.0%	7.5%
1.11	Employment Equity and Diversity	58.0%	70.0%
1.12	Women in Management and on the Board	11.0%	25.0%
1.13	Employee Communication	60.5%	77.5%
2	**Customer Related**		

2.1	General Policy	40.0%	50.0%
2.2	Customer Communications/ Services/ Complaints	21.5%	40.0%
2.3	Product Safety	26.0%	32.5%
2.4	Responsible Consumerism Promotion	18.0%	18.0%
3	**Environment Related**		
3.1	Environmental KPIs	69.0%	69.0%
3.2	Conservation of Energy and Materials	62.0%	80.0%
3.3	Environmental Assessment of Capital Projects	36.0%	42.5%
3.4	Environmental Audit/ ISO 14000	62.0%	65.0%
3.5	Recycling and Waste Management	55.5%	65.0%
3.6	Greening Policies/ Efforts	8.0%	17.5%
3.7	Sustainability Initiatives	44.0%	65.0%
4	**Public Stakeholder Related**		
4.1	Mission, Purpose or Corporate Code	82.0%	84.0%
4.2	Public Health, Safety and Protection	27.5%	34.0%
4.3	Public Policy Involvement	12.0%	30.0%
4.4	Community relations	81.0%	85.0%
4.5	Social Investment and Donations	77.5%	85.0%
4.6	Fair Competition/ Anti-Trust	6.0%	15.0%
4.7	Anti-corruption/Bribery	2.0%	17.5%
4.8	Corporate Governance	75.0%	80.0%
5	**Benchmarking**		
5.1	Compliance (Combined Code, etc)	15.0%	17.5%
5.2	Reporting Guidelines (GRI, etc)	16.0%	27.5%
5.3	International Awards	15.0%	20.0%
5.4	External Verification/ Assurance	12.0%	35.0%

Economic Performance

Reporting on economic performance and wider issues of economic sustainability is an area of reporting gaining momentum over the past several years in the UK. Food retailer giants TESCO, Sainsbury's and Morrison's all go to great lengths detailing the economic benefits they bring to the different regions they operate in. Oil and gas companies are all reporting, to varying degrees, in line with the UK Extractive Industries Transparency Initiative. Anglo American discloses payments to governments alongside summaries of each of its operations across the globe.

Social and Ethical Performance

Most UK companies are still reluctant to provide a complete set of accounts of their environmental and social impacts. Although reporting may not yet meet all relevant stakeholder needs, companies are beginning to report the impacts of their products on climate change (BP), health and nutrition (Unilever) and alcohol responsibility (SABMiller) in considerable detail. A controversial top performer in this area, because of the nature of its business and products, is British American Tobacco. However, the company's reporting on human rights and community development is one of the most detailed and specific in the sample. BAT, unlike many UK companies, chooses to tackle their issues head on rather than brush them under the carpet. The following are excerpts from the BAT Corporate Social Responsibility Website and 2003 CSR Report.

> "Tobacco can attract controversy; with some people suggesting a tobacco company can't be socially responsible. That view indicates the strong emotions that can surround our products, but we think it gets in the way of practical progress. As society's expectations of corporate responsibility change, we are changing some of the ways we address issues of concern. We are working for wider accountability to society, and engaging in constructive dialogue with our stakeholders on the issues surrounding our products. Dialogue is at the heart of our third Social Report."

In a similar vein, BAT tackles the issues of public policy involvement and political contributions unashamedly and unapologetically.

> "Our role is to present our views and those of our stakeholders to policy-makers in an objective and constructive way, without seeking to exclude the views and concerns of others. We see it as the role of politicians and governments to consider without

prejudice the full range of views in civil society, including business and its employees, consumers, suppliers and commercial partners."

Our current position and practice

We support and wish to help deliver tobacco regulation that can help to reduce the impact of tobacco consumption on public health, while also ensuring that adult consumers can continue to make informed choices about a legal product. We seek to be heard in the development of tobacco policy and seek to work transparently and in good faith with regulators and policy-makers, presenting our views objectively and constructively.

Tobacco companies have been accused by some, mainly anti-smoking groups, of lobbying to 'subvert' the development of public health policy. For us and for other industry stakeholders the issue is in fact a lack of access to policy makers and regulators. It can be impossible to discuss with some government health departments' policy matters which directly affect our employees, suppliers and consumers and the World Health Organisation (WHO) Secretariat has excluded the industry from meaningful dialogue on the Framework Convention on Tobacco Control. This difficulty in putting an industry view hampers, rather than helps, the transparency that we seek.

A basic principle of sound policymaking is that the concerns and interests of those who will be affected by regulation should be taken into account. This is why the constitutions of many countries protect the right to participate in the policymaking process, and also vested rights such as property protection. At the international level such vested rights are protected by international trade agreements and investor protection agreements. That is why we think it is inappropriate that instruments like the Framework Convention on Tobacco Control should attempt to bypass national institutions and international agreements by seeking to exclude our interests. As one NGO stakeholder in dialogue put it: *"I can't think of anything else where people don't get consultation or pre-consultation on relevant legislation."*

During this reporting cycle, our Group companies have been encouraged to engage with governments on the basis of our right, as a legal industry, to participate in and be consulted on policymaking that affects our business, especially in the area of tobacco control. (See also Responsible Product Stewardship: Balanced regulation.)

We want to move away from controversy to cooperation and from exclusion to inclusion. We can only do this if governments, who are major stakeholders in our business due to the large tax revenues they gain from sales of tobacco products, reciprocate by including us.

Political donations

Contributions from Group companies to political parties and organisations, their officers, elected politicians and candidates for elective office are generally prohibited. However, donations may be made for the purpose of seeking to influence debate on issues affecting the company or Group, provided they are made solely for this purpose and are not to achieve any improper business or other advantage, are not intended personally to benefit the recipient or his or her family, friends, associates or acquaintances and are permissible under all applicable laws.

Donations to political organisations within the European Union may only be made from funds previously authorised by shareholders at a General Meeting. At the Annual General Meeting in 2001, British American Tobacco p.l.c. was given that authority covering the four years to 2005 and under it, a payment of £25,000 was made in 2002 and 2003 to 'Britain in Europe', a coalition that aims to promote public understanding of the importance of Britain's role in the European Union.

Any donation must be permitted under local law, must be authorised by the board of the Group company making it, must be fully documented in the company's books and, if required by local law, must be put on the public record. Any payment that has been authorised must be notified in writing to the Company Secretary of British American Tobacco p.l.c. Group companies must return a certificate to the Company Secretary each year stating either that no payment has been made or giving full details where payment has taken place. These results are reported annually to the Audit Committee of British American Tobacco p.l.c., with an interim report to the Committee at the half year in respect of those countries where payments were reported/made in the preceding year. In 2003, three Group subsidiaries made donations to political parties outside the EU totalling £235,340 in accordance with these procedures. For details, click on the GRI indicators.

Review of alignment with our Core Belief

Stakeholders say that engagement between the tobacco industry and governments is essential for effective policy formulation and consider British American Tobacco to be in a strong position to improve dialogue. Stakeholders also indicate that we should engage in a more collaborative approach, involving others in the industry and companies from different sectors in presenting views to government. They suggested greater participation in the political process among employees and consumers. Other points were for more transparency on the desired outcomes of political donations, a request for transparent policies on bribery and corruption and a query on potentially undue financial influence of the Group on governments of developing countries.

Our response

Engagement and dialogue between the tobacco industry and governments, and other regulatory stakeholder groups, is vital to effective policy formulation. We recognise that on some topics there is a collective interest in combined representation, with other tobacco companies or our commercial partners. We will continue to work on engagement, together with our commercial partners where appropriate, and will also follow up on the engagement and dialogue that underpin our social reporting.

Political donations: As we did last year, we publish information on this page and under the GRI indicators.

Bribery and corruption: As last year, we publish our clear policy under the GRI indicators. Bribery and corruption are specifically prohibited under our Group Standards of Business Conduct.

Potentially 'undue financial influence on governments of developing countries': As a participant in diverse economies around the world, including in developing countries, we contribute positively by creating employment and enabling governments to collect significant tax revenues. We do not consider that this is undue influence. In many countries we are welcomed as partners in civil society and we offer our views in appropriate ways in line with all applicable legislation and our Standards of Business Conduct.

Assurance and Accessibility

Assurance has emerged as a critical area in reporting, in terms of the different methodologies used, and in terms of the cost-benefit balance. Assurance has become big business for reporters and their auditors, though there is great controversy surrounding which forms of assurance add most value. Of the UK sample, only 25% on average included some form of external assurance or review. The GRI guidelines feature prominently in the majority of these reports, with substantial effort being given to indexing each indicator to pages in the relevant report.

8.4.2 Web Sites

All 45 listed companies used in the UK sample had useable World Wide Web sites, a penetration rate of a perfect 100%. Panels A and B contain descriptive statistics for the British Web sample.

Table 8.16 Panel A: Nature of Disclosure

	Frequency	Percent	Valid Percent	Cumulative Percent
Descriptive	10	22.25	22.25	22.25
Quantitative/ Non-Financial	7	15.5	15.5	37.75
Financial	28	62.25	62.25	100.0
Total	45	100.0	100.0	

Table 8.16 Panel B Stand Alone Reports

	Frequency	Percent	Valid Percent	Cumulative Percent
None	8	17.75	17.75	17.75
Environmental	4	8.75	8.75	26.5
CSR Report	12	26.75	26.75	53.25
Sustainability	8	17.75	17.75	71.0
Environment and CSR Reports	2	4.5	4.5	75.5
Environment and Sustainability	1	2.25	2.25	77.75
CSR and Sustainability Reports	2	4.5	4.5	82.25
Corporate Citizenship Report	4	8.75	8.75	91.25
Industry Specific Report	4	8.75	8.75	100.0
Total	45	100.0	100.0	

The shift in focus from the natural environment to the wider issues of social responsibility and sustainability is even more pronounced in the UK Web sample, as depicted above in panel B.

Most reporters in the UK sample now supplement their reporting by using their corporate internet sites. Good examples of closely integrated print and web-based reporting can be found in the oil and gas industry, namely Shell and BP. Of the UK reports, only 15% were solely web-based reports of which Rio Tinto and Unilever had the highest index scores. Table 8.17 below shows the percentage of companies disclosing CSR related information via their corporate Web Site.

Table 8.17 FTSE 100 Web Disclosures

	CSR Disclosure Item	**Percentage of Companies Disclosing via Website**
1	**Employee Related**	
1.1	General Policy	89.5%
1.2	Compensation, Benefits and Rewards	43.0%
1.3	Training and Development/ Career Planning	80.0%
1.4	Employee Assistance Programs	12.0%
1.5	Occupational Health and Safety/ Health Promotion	100%
1.6	Relationships with Unions	21.0%
1.7	Absenteeism and Turnover	68.0%
1.8	Leaves of Absence	4.5%
1.9	Termination, Layoffs, Redundancy and Appeals	15.0%
1.10	Retirement and Termination Counselling	18.0%
1.11	Employment Equity and Diversity	91.5%
1.12	Women in Management and on the Board	31.0%
1.13	Employee Communication	88.0%
2	**Customer Related**	
2.1	General Policy	60.0%
2.2	Customer Communications/ Services/ Complaints	55.0%
2.3	Product Safety	47.5%
2.4	Responsible Consumerism Promotion	24.0%
3	**Environment Related**	
3.1	Environmental KPIs	74.0%
3.2	Conservation of Energy and Materials	89.0%
3.3	Environmental Assessment of Capital Projects	52.0%
3.4	Environmental Audit/ ISO 14000	77.0%
3.5	Recycling and Waste Management	77.0%
3.6	Greening Policies/ Efforts	34.5%
3.7	Sustainability Initiatives	79.0%

4	**Public Stakeholder Related**	
4.1	Mission, Purpose or Corporate Code	94.0%
4.2	Public Health, Safety and Protection	45.5%
4.3	Public Policy Involvement	38.0%
4.4	Community relations	96.0%
4.5	Social Investment and Donations	93.0%
4.6	Fair Competition/ Anti-Trust	39.0%
4.7	Anti-corruption/Bribery	41.0%
4.8	Corporate Governance	84.0%
5	**Benchmarking**	
5.1	Compliance (Combined Code, etc)	62.0%
5.2	Reporting Guidelines (GRI, etc)	29.0%
5.3	International Awards	36.0%
5.4	External Verification/ Assurance	30.0%

8.5 Cross-country Comparison

Figure 8.18 Cross-country Comparison Annual Reports vs Websites

	Egypt		**India**		**United Kingdom**	
Disclosure Item	**Annual Reports**	**Web Sites**	**Annual Reports**	**Web Sites**	**Annual Reports**	**Web Sites**
Employee Related						
General Policy	45.2%	55.6%	63.0%	84.4%	77.5%	89.5%
Compensation, Benefits and Rewards	12.9%	16.7%	15.2%	35.6%	22.5%	43.0%
Training and Development/ Career Planning	29.0%	55.6%	47.8%	66.7%	57.5%	80.0%
Employee Assistance Programs	38.7%	55.6%	13.0%	28.9%	5.0%	12.0%
Occupational Health and Safety/ Health Promotion	41.9%	50%	50.0%	68.9%	95.0%	100%
Relationships with Unions	0%	0%	15.2%	20.0%	12.5%	21.0%
Absenteeism and Turnover	29.0%	33.3%	0%	0%	52.5%	68.0%
Leaves of Absence	3.2%	0%	0%	0%	5.0%	4.5%
Termination, Layoffs, Redundancy and Appeals	0%	0%	0%	4.4%	8.0%	15.0%
Retirement and Termination Counselling	0%	0%	6.5%	11.1%	7.5%	18.0%
Employment Equity	0%	0%	23.9%	44.4%	70.0%	91.5%

and Diversity						
Women in Management and on the Board	6.5%	5.6%	6.5%	8.9%	25.0%	31.0%
Employee Communication	35.5%	50%	17.4%	33.3%	77.5%	88.0%
Customer Related						
General Policy	35.5%	55.6%	34.8%	44.4%	50.0%	60.0%
Customer Communications/ Services/ Complaints	32.3%	44.4%	4.3%	13.3%	40.0%	55.0%
Product Safety	38.7%	66.7%	2.2%	13.3%	32.5%	47.5%
Responsible Consumerism Promotion	12.9%	0%	0%	4.4%	18.0%	24.0%
Environment Related						
Environmental KPIs	51.6%	55.6%	39.1%	51.1%	69.0%	74.0%
Conservation of Energy and Materials	16.1%	44.4%	60.9%	66.7%	80.0%	89.0%
Environmental Assessment of Capital Projects	32.3%	50%	30.4%	55.6%	42.5%	52.0%
Environmental Audit/ ISO 14000	38.7%	55.6%	43.5%	42.2%	65.0%	77.0%
Recycling and Waste Management	6.5%	11.1%	21.7%	31.1%	65.0%	77.0%
Greening Policies/ Efforts	12.9%	33.3%	15.2%	37.8%	17.5%	34.5%
Sustainability Initiatives	16.1%	33.3%	37.0%	57.8%	65.0%	79.0%
Public Stakeholder Related						
Mission, Purpose or Corporate Code	41.9%	88.9%	78.3%	97.8%	84.0%	94.0%
Public Health, Safety and Protection	35.5%	50%	23.5%	53.3%	34.0%	45.5%
Public Policy Involvement	3.2%	5.6%	0%	15.6%	30.0%	38.0%
Community Relations	51.6%	66.7%	49.2%	82.2%	85.0%	96.0%
Social Investment and Donations	41.9%	61.1%	39.1%	73.3%	85.0%	93.0%
Fair Competition/ Anti-Trust	0%	0%	0%	2.2%	15.0%	39.0%
Anti-corruption/Bribery	0%	0%	4.5%	11.1%	17.5%	41.0%
Corporate Governance	9.7%	11.1%	74.0%	75.6%	80.0%	84.0%

Benchmarking						
Compliance (Combined Code, etc)	0%	0%	41.0%	33.3%	17.5%	62.0%
Reporting Guidelines (GRI, etc)	0%	0%	2.2%	2.2%	27.5%	29.0%
International Awards	0%	0%	32.6%	46.7%	20.0%	36.0%
External Verification/ Assurance	0%	0%	8.5%	8.9%	35.0%	30.0%

Table 8.18 clearly shows that corporations in all three countries are disclosing significantly more CSR-related information via their websites than via the traditional printed annual report. This lends support to the political economy argument that corporate social disclosures are mechanisms used by organisations to protect their own self-interests and deflect the attention and intervention of regulatory bodies, and as such will seek out alternative communication media to make corporate social disclosures.

In Egypt, the seven items in the index relating to the natural environment witnessed the greatest overall increases in disclosure, with certain topics, such as sustainability initiatives and conservation of energy and materials increasing three-fold. Nearly 90% of the Egyptian sample included a mission, purpose or corporate code of conduct on their Internet site as compared with only 42% in the same year's printed annual report. The Web also saw the first disclosure by any Egyptian company into the previously taboo area of public policy involvement.

As was the case with the Egyptian sample, strong support for this argument can be found in the results of the Indian sample. Disclosure rates via the Web were significantly higher than those of the annual reports across all industry segments and all four areas of disclosure. Even issues that were completely absent in the print media, such as public policy involvement, were disclosed via the corporate web site. Of the 36 items in the index, only two items, namely leaves of absence and absenteeism and turnover were not disclosed on the web site of any company in the sample, as compared with nine and six items in the 2002 and 2003 annual reports, respectively.

Given the advanced reporting culture in the UK and the rate of penetration of the Internet, it is not surprising to find that most reporters in the UK sample now supplement their reporting by using their corporate internet sites. While companies in the UK are also disclosing more via their websites than in their printed reports, the discrepancies between the two are considerably less than in either of the other two samples. Closely integrated print and web-based reporting can be found in the oil and gas industry, namely Shell and BP. Of the UK reports, 15% were solely web-based reports. No report was solely web-based in either Egypt or India.

One of the most apparent shortcomings of CSR disclosures in developing countries is their lack of comparability with their western counterparts, which severely hinders inter-company comparison and benchmarking. In Egypt, there were no references to compliance with any recognised international standards or initiatives nor any mention of compliance with local laws, such as the Environmental Protection Act of 1994 or the listing requirements of the CASE.

Figure 8.19 Nature of Disclosure

		Annual Reports		Web Sites	
Sample	**Nature of Disclosure**	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Egypt	No Disclosure	8	25.8%	3	16.7%
	Descriptive	16	51.6%	9	50.0%
	Quantitative/Non-Financial	3	9.7%	3	16.7%
	Financial	4	12.9%	3	16.7%
India	No Disclosure	1	2.1%	0	0%
	Descriptive	25	53%	11	24.4%

	Quantitative/Non-Financial	3	6.6%	9	20%
	Financial	18	38.3%	25	55.6%
United Kingdom	No Disclosure	0	0%	0	0%
	Descriptive	9	20%	10	22.25%
	Quantitative/Non-Financial	7	15.5%	7	15.5%
	Financial	29	64.5%	28	62.25%

With approximately 75% of the Egyptian sample and 98% of the Indian sample disclosing some social or environmental information in their annual reports, there is reason for optimism as to the future of CSR reporting in developing countries. However, as shown in Figure 8.19, the disclosures were overwhelmingly descriptive and self-laudatory in nature. Only 13% and 17% of Egyptian sample disclosures were financially quantified in the annual report and corporate website respectively. As suggested by Ingram & Frazier (1983) and supported by Ness and Mirza (1991) and Belal (2001), descriptive information is monitored and controlled less rigorously than financial information, indicating that managers have considerable choice as to the social and environmental information they wish to disclose, lending support to the argument that CSR disclosures are made for legitimating purposes.

Figure 8.20 Type of Stand Alone Report

	Egypt		**India**		**United Kingdom**	
Type of Stand Alone Report	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
No Stand Alone Report	87.1%	87.1%	85%	83%	44.5%	24.5%
Environmental Report	6.5%	6.5%	4.2%	6.6%	22.25%	11.25%
CSR Report	-	-	6.6%	8.3%	11.25%	17.75%
Sustainability Report	3.2%	3.2%	2.1%	2.1%	6.5%	20%
Combined Env/CSR Report	-	-	2.1%	-	4.5%	4.5%
Combined Env/Sustainability	-	-	-	-	-	2.25%
Combined CSR/Sustainability	3.2%	3.2%	-	-	2.25%	4.5%
Corporate Citizenship Report	-	-	-	-	2.25%	6.5%
Industry Specific Report	-	-	-	-	6.5%	8.75%

With fewer than 13% of the sample providing stand alone reports of any kind, the 'business case for CSR' has clearly not yet been made in Egypt. The majority of listed companies in Egypt are, like Friedman (1970), choosing to interpret social issues and social responsibilities to mean non-business issues and non-business responsibilities. In an almost identical scenario with Egypt, only 17% of the Indian sample had stand alone CSR related reports. However, a significant difference between the two samples lies in the nature of the disclosure. 20% of the Indian sample quantified their CSR disclosures while the majority of the sample, 55% disclosed CSR information of a financial nature via their Web site, as compared with 7% and 40%, respectively, via the annual report.

As mentioned previously, the rationale behind the inclusion of reports for two fiscal years was to ensure data completeness rather than an attempt to detect reporting trends. However, table 8.20 highlights two significant findings regarding the UK sample: **(1)** a dramatic increase in the number of stand alone reports and **(2)** a shift away from a purely environmental focus to the wider issues of sustainability and corporate citizenship. It is possible, if not probable, that initiatives such as the GRI, AA1000, and the UN Global Compact may be credited with these changes. That shift has yet to be felt in developing countries.

8.6 Discussion

Annual Report Disclosures

The development of stock markets significantly influences the accounting environment of any country, in particular developing countries. The growing number of listed companies on the stock market creates demand for accounting and auditing services. Stockholders who require more information and disclosure will rely more heavily on these services. Stock market regulations will create demand for auditors' services. In general, capital market participants demand a higher quality of both financial and non-financial disclosures. Gray et al (1984) argue that as the volume of trading increases in the market, both buyers and sellers exercise more pressure on companies to disclose more information. Moreover, Doupnik and Salter (1995) indicate that as the level of activity increases in the market, investors require more extensive disclosures to help in making investment decisions. Therefore, stock markets create the need to improve corporate disclosure, corporate governance practices and accounting standards to attract both domestic and international investors. It is, therefore, not at all surprising that UK companies had higher overall index scores than companies in both Egypt and India, reflecting a more mature reporting culture.

Furthermore, quality of disclosure is also influenced to a great extent by the listing requirements of the various stock exchanges. Thus, listed companies are likely to disclose more than unlisted companies. Multiple listings can indicate a greater need for external capital and this need is a possible explanation for increased disclosure. Evidence for this can be found in the fact that the top reporters in Egypt and India, Orascom Construction and Tata Steel, respectively, are both listed on the London Stock Exchange.

Privatisation involves a shift to private ownership, whereby the role of government as the owner/manager of business enterprises is reduced by disposition to entrepreneurs and corporations. Privatisation, therefore, encompasses the transfer of property rights from the state to individuals and corporations, or a reduction in state activities in an effort to remove barriers to entry for private ventures. A major determinate of the privatisation process is the state of the economy. In a developed market economy, the privatisation emphasis is on the transfer of state assets from government into private hands in an effort to remove politics from business decisions and promote the efficient use of assets. In a developing market economy, the fundamental objective of privatisation – redistribution of state assets- is present, however, the need to develop capital markets and constraint on the process of privatisation are paramount. As stated by Massoud (1998), "the successful transformation of a command economy into a market economy based on private enterprises cannot be forced. Such a transformation necessitates the following basic conditions: (1) a stable political system, (2) a common fundamental acceptance of the economic policy, (3) a proven uncomplicated legal system, (4) an efficient and flexible social welfare system, and above all (5) a market-oriented accounting and reporting system". Privatisation may impact the accounting practice and disclosure in a specific environment. Government and state-control banks often provide capital to state corporations. For these corporations to be privatised, stockholders will mainly provide the capital. The accounting and disclosure requirements for the external environment (public) are different from those required for government. Stockholders tend to require a more sophisticated level of public financial disclosure than that required by the government. Evidence for this can be found in the Egyptian sample where private companies disclose considerably more than government owned entities. In India, however, with government-owned enterprises out performing private companies in some industries, that is clearly not the case.

Internet Disclosures

It was argued in chapter three that the Internet, as a medium for communication and dissemination of corporate information, has an important role to play in the stakeholder management process. It is the expected accessibility of the Internet that makes it a good tool for communication with an incredibly wide range of stakeholder interests. In addition, the Internet allows users to easily identify information relevant to their own interests without first being required to plod through endless irrelevant data. Also, in line with the idea of stakeholder dialogue, the use of hyperlinks provides the opportunity for organisations to be connected with stakeholder groups, thus enabling other interested parties to see both the organisation's and the stockholder's perspectives. At present these are the most apparent opportunities that the Internet provides for stakeholder communication and dialogue, but this is not to say that as the technology develops further there will not be an even greater, more interactive role, for the Internet to play in the future.

Gray et al (1996, p32) believe that an ..."Accountability framework is the most useful one for analysing accounting information transmission in general, and CSR in particular". The Internet provides a new medium by which organisations can transmit information, but the question still remains as to whether the Internet has actually changed the accountability of these organisations.

The results of this research suggest that the Internet is widely used as a communication tool in all three countries under study, but most predominantly by the larger companies. All large companies had a Web site and provided much more information than the smaller companies in the respective samples. This is most probably a resource issue as the provision of up to date and detailed information via a well-designed Web site is not cheap either in monetary or time terms. The larger companies in all three countries appear to provide most information for primary social stakeholders. The other two main areas of reporting are press releases and the environment, and the actual intended audience for this information could also be primary social stakeholders. Therefore, with the increased interest in ethical and environmental investing, it could be argued that the environmental information is provided for shareholders rather than environmental groups. Similarly, up to date information will be important for shareholders and therefore the press releases could also be argued to be included for their benefit. There is also a problem with the stakeholder concept that an individual can have multiple stakes in the business as employee, consumer, shareholder and a member of the local community. It is easier to identify the information needs of a stakeholder group than those of an individual who has multiple stake holdings in the same organisation. It was argued in chapter two that while stakeholder theory can be used to explain some CSR reporting practices; legitimacy theory can be used to explain a little more.

Legitimacy theory suggests that organisations only exist if the society in which it operates allows it to and it must therefore operate within the value system of the society. According to Lindblom (1994) there are four "legitimating strategies" and these are:

1. Educating the stakeholders about how the company will improve performance in the future;
2. Changing the stakeholders perception of events;
3. Distracting attention away from the problem; or
4. Changing expectations about the company.

If this is used as a structure for Internet reporting, each can be seen as a possible motivation for their reporting. Certainly on environmental issues companies can be seen to be providing information on performance and target improvements in the future. However, the voluntary nature of all of the Internet reporting has given companies the opportunity to choose what is given attention to and what is not. Therefore, it is interesting that issues such as public policy involvement or employment equity and diversity in Egypt and India are never raised by any of the companies in the respective samples. The absence of specific issues, or stakeholder groups, suggests that this is beyond what these societies expect of their companies. As both Egypt and India are developing countries with long histories of socialist policies and practices, it seems plausible that society views these as governmental regulatory issues rather than individual company issues and therefore there is no expectation to report voluntarily.

Additionally, one of the most notable findings in the Web samples is the selective use of links and independent comment by the companies. Any independent comment provided on Web sites, in all three countries under study, was resoundingly positive. Also, the links provided can be argued to be primarily to business friendly sites, therefore, for example in the environmental sections of some corporate Web sites, links were provided to Business in the Community or GRI but not to Friends of the Environment (FoE). Companies preferred to ignore these dissenting voices rather than enter into dialogue on the Internet. Therefore the only companies that mentioned the FoE Green League Tables (UK sample) had performed well. It is feasible, if not probable, that other companies that did not perform well could have debated the validity or appropriateness of the model used by FoE. Instead the preference was to ignore the report and not engage with this debate. This sweeping under the carpet of issues, which could question the legitimacy of the organisation, can again be explained by legitimacy theory.

The selective reporting and lack of dialogue on the Internet raises significant doubts as to whether it has resulted in greater accountability. The majority of the information provided was previously available in other forms and so the actual use of the Internet does not necessarily mark a significant change in the competitive pressures for information. The widening access to the information, as it is now accessible from anywhere in the world, may in the future improve accountability. At present this is still debateable as access to the Internet, although growing rapidly, is still in the hands of the minority not only in developing countries, but in the United Kingdom as well. Also, education, geography and wealth will limit certain stakeholders' ability to access information via the Internet. At present it seems possible to conclude only that the Internet has the potential to improve accountability, but that this is by no means a forgone conclusion, as it will depend on both how organisations' use of the Internet develops and how truly accessible the Internet becomes.

Internet sites are still being developed and improved and there are some instances where companies appear to have gone further than their competitors. The use of the Internet as a communication medium is already significant and at present appears likely to continue to expand. The need for a well-designed Web site is essential as it enables stakeholders to easily find what they are looking for. Although there are both good and bad examples in all three countries under study, companies appear to be failing to maximise the potential of their web sites.

8.6 Summary

It was argued in chapter three that the Internet, as a medium for communication and dissemination of corporate information, has an important role to play in the stakeholder management process. It is the *expected* accessibility of the Internet that makes it a good tool for communication with an incredibly wide range of stakeholder interests. In addition, the Internet allows users easily to identify information relevant to their own interests without first being required to plod through endless irrelevant data. Also, in line with the idea of stakeholder dialogue, the use of hyperlinks provides the opportunity for organisations to be connected with stakeholder groups, thus enabling other interested parties to see both the organisation's and the stockholder's perspectives. At present these are the most apparent opportunities that the Internet provides for stakeholder communication and dialogue, but this is not to say that as the technology develops further there will not be an even greater, more interactive role, for the Internet to play in the future. The results of this research suggest that the Internet is widely used as a communication tool in all three countries under study, but most predominantly by larger companies.

Although there are clear differences in the reporting practices of listed companies in the three nations under study, the pressures on companies to become more transparent, accountable, responsible and ultimately to help supply chains and economies to become more sustainable are being felt worldwide. While the results of this study have shown that corporate social reporting is clearly not a culture specific phenomenon, they have also unequivocally demonstrated that it is a very culturally sensitive one. CSR disclosures, at present, differ significantly in the extent, quality and detail of reporting on social and environmental issues in each of the three countries under study. CSR developments, in future, will most probably differ in not only these three nations, but also worldwide, to reflect the different societal concerns. However, the results of this study suggest the following as the three areas in which increased CSR disclosure can be anticipated:

Economic Performance

Reporting on economic performance and wider issues of economic sustainability is an area of reporting gaining momentum over the past several years. Numerous companies go to great lengths detailing the economic benefits they bring to the different regions, both nationally and internationally, in which they operate.

Social and Ethical Performance

Most companies in the three samples are still reluctant to provide a complete set of accounts of their environmental and social impacts. Although reporting may not yet meet all relevant stakeholder needs, companies are beginning to report the impacts of their products on climate change, health and nutrition and alcohol responsibility in considerable detail.

Assurance and Accessibility

Assurance has emerged as a critical area in reporting, in terms of the different methodologies used, and in terms of the cost-benefit balance. Assurance has become big business for reporters and their auditors, though there is still great controversy surrounding which forms of assurance add most value.

Chapter Nine

Summary of Findings, Limitations and Recommendations

9.1 Summary of Findings

Despite 30 years of research, social accounting and reporting is an area that is still in its infancy. Further developments can be expected as governments introduce legislation and professional bodies develop guidelines. Since the United Kingdom is a developed country and Egypt and India are lesser-developed countries, CSR developments will most probably differ in these countries to reflect different social concerns. While this may hinder attempts to harmonise disclosure practices internationally, it will undoubtedly improve the quality and value of the disclosure. Accounting literature suggests that as the business environment changes, the demand and use of financial information changes leading to the establishment and development of accounting. Belkaoui (1985) suggests that accounting does not develop in a vacuum but reflects the particular environment in which it is developed. This would explain why accounting systems, practices and disclosure differ from one country to another (see, for example, Radebaugh, 1975; Belkaoui, 1985; Adhikari &Tondkar, 1992; HassabElnaby et al, 2003). When accounting developments stem from the socio-economic environments in which companies operate, as opposed to blind importation of international standards or best practices, companies are less likely to resist. Disclosures are, therefore, more likely to stress substance over form and less likely to be just a public relations exercise. Although not an item included in the disclosure index, due to its cultural specificity, a prime example of this can be seen in Indian companies' reporting of National Language Initiatives. Because it is an issue that stems from a national concern, i.e. the use of Hindi in business, reporting is more truthful and transparent. Most companies provide detailed accounts of initiatives currently in place, as well as proposed initiatives under consideration, well beyond the minimal disclosures required by the Bombay Stock Exchange.

As demonstrated in chapter eight, there appears to be a growing awareness of the need to report on social and environmental matters in all three countries under study. The extensive disclosures relating to higher paid employees in India are in contrast to the minimal information required in the United Kingdom. As argued in chapter two, the different political environment provides a probable explanation of this. India is a developing country with a great need to develop and use its human resources in order to raise the standard of living. The required disclosures thus meet the needs of government and society at large. At the same time, in all three countries disclosure of social and environmental information is predominantly voluntary.

9.2 Limitations of the Study

As is the case with all empirical studies, this study has some limitations. Academic evidence (see chapter three for full discussion) suggests that financial reporting practices are affected by and may be explained by a number of environmental factors such as a country's particular colonial history or stage of development, tax laws, capital markets, education levels, and inflation levels, economic, political, legal and cultural diversity. The nature of this research is essentially exploratory, as there is little previous work in the area, therefore not all environmental factors were taken into account assuming that excluded factors are constant throughout the study period. It is doubtful that the inclusion of other omitted variables, such as legal system or inflation levels would affect the results of the study per se; however, it is acknowledged that these factors might aid in explaining the diversity of reporting practices in the three nations under study.

Again due to the exploratory nature of the study as well as the more pragmatic issue of data accessibility in developing countries, this study surveyed only two years of annual reports.

While it is acknowledged that this may be viewed as a limitation, it is worth noting that the purpose was to ensure data completeness and not any attempt at trend analysis. It is for this reason that no attempt was made to generalise the findings of the research beyond the study populations.

A further limitation relates to the fast changing nature of the Internet. It is recognised that some of the Web sites that are commented upon here will have been updated since this study was undertaken. It is also possible that the Web sites contain more information than was accessed by the researcher. In defence, a strict routine of trying to access all pages, described fully in chapter seven, was followed in order to ensure that the coverage was as complete as possible. Similarly the site searches and site maps were used when possible, although not all sites offered these services. A further defence could be that, if the information could not be found through this process, then it is not easily accessible and therefore will not be found by most stakeholders.

9.3 Recommendations

Recommendations for Business:

Clarity and Consolidation of the Language: Despite over three decades of research a fundamental problem in the field of CSR is that there are no standard universal definitions that provide a framework or model for the systematic collection, organisation, and analysis of corporate data. While individual countries, and by extension companies, may be more comfortable with some terms than others for reasons of their own individual history and culture, the assumption that they are one and the same potentially breeds confusion and suspicion. 'CSR', for example, has been used to denote corporate social responsibility, reporting and even responsiveness whereas sustainability has no less than a dozen different meanings in the reports surveyed. Broader agreement on the language and concepts is a crucial first step to overcoming some of the criticisms of CSR.

Communication/Dialogue: One clear impact of the GRI guidelines, and other such reporting frameworks, has been to encourage more reporters to include more detailed indexes in their reports. This makes it easier for users looking for specific information to find what they need. While reporting may be a one-way street, communication clearly is not. True stakeholder dialogue will require companies to take their reports back and find effective ways of addressing the changing concerns of their key users. Disclosure is a necessary prerequisite for improved governance, engagement and action, not a substitute.

Internet Reporting: It is clear that the rapid rise of internet based reporting has not wiped out printed reports, nor is it likely to anytime soon. However, most reporters' internet–based reports are no more than additional public relations tools as they offer little in the way of functionality over the paper based equivalent. There is, however, great potential to make information more accessible and usable to data-miners using tools like XBRL. In developed and developing nations alike, companies have a long way to go before the World Wide Web is used to its full potential as both a communication tool and a mechanism for the international standardisation and harmonisation of disclosure practices.

Tighter Frameworks: While initiatives such as the GRI, AA1000, and the Global Compact may individually enjoy a degree of success, their impact will be vastly expanded by closer alignment. In addition, the different roles for voluntary schemes, mandatory requirements and professional services such as assurance need clarity and a greatly improved body of evidence to go beyond niche practices. The growth in assurance has begun to mirror the growth in reporting, with one notable difference: development of assurance has for the most part been crude, whereas reporting more generally has benefited from the GRI guidelines and other frameworks. Until the AA1000 Assurance Standard was released in 2003, almost no external assurance statements were based on a named standard of any kind – and most still aren't. This means that it can be very difficult to compare one company to the next in this respect, as one company's 'assurance' may bear little resemblance to another's, even if they operate in the same sector. As with most CSR issues, the term assurance is a very broad one. It is best defined as 'steps taken to increase confidence in a report'. These steps, however, can be many and various, and nó single view prevails as to what must be included in an assurance review, but it often encompasses one ore more of the following:

- Verification of (specified) reported data
- Quality of systems and processes that generate (specified) data
- Effectiveness of management systems related to particular issues
- Materiality of reported information
- Completeness of the sustainability picture on which the report is based
- Responsiveness of the company to stakeholders' needs
- Stakeholders' opinions on the appropriateness of a company's reporting on the issue

With 0%, 9% and 25% of companies in the Egyptian, Indian and UK samples, respectively, providing an assurance statement regarding their CSR reports, a clear opportunity exists to increase the quality and validity of CSR reports worldwide.

Corporate Governance: Corporate scandals of the past decade have driven key corporate competencies, culture and decision-making to the top of the international agenda. Current approaches to reporting on and even understanding governance issues, however, are simplistic and run the risk of falling by the wayside like other business buzzwords and fads of the past. Clarifying what behaviours and skills boards and executives need to lead successful, accountable companies represents a tremendous opportunity. In addition, companies will need to integrate their financial and non-financial thinking and decision-making, in order to better understand and manage the dynamics of both.

Recommendations for further research:

The aforementioned recommendations for practitioners are equally applicable in academic and research environments. Business practice does not develop in a vacuum. If current CSR reporters can be criticised for lack of comparability and consistency in their usage of jargon, the academic and research communities are also guilty of the same. Standardisation and harmonisation of disclosure *practices* will only be possible through a concerted effort to standardise the relevant CSR/Sustainability *terminology*. The same could arguably be said for the various theoretical frameworks, discussed in chapter two, in which current CSR research is grounded. Although not initially an objective of this research, this dissertation, and in particular the theoretical deficiencies identified in chapter two, goes some way towards achieving this end. Further research is needed in the area of theory development to build upon this work and might perhaps lead us to a form of Contingency theory in which the CSR disclosure decision can be explained by identifying the contingent variables in any research environment.

The influence of religion upon accounting is not an issue that has been explored to a great extent in the conventional literature, although it was argued in chapter four that the two might be connected. Traditionally, religion has had a role in shaping and enforcing ethical behaviour such as truthfulness, honesty and social justice. A community in which such values are held in high regard may be marked by an elevated degree of trust in business dealings and financial affairs. While this research only looked at two of the world's major religions, namely Islam and Hinduism, the indicators are none the less encouraging. Further research in this area will broaden understanding of similarities and may also help facilitate harmonisation efforts.

Although a number of companies are making social disclosures in both Egypt and India, the quantity of information disclosed is significantly lower than their western counterparts in the UK. The nature of disclosure is also overwhelmingly descriptive. In the absence of independent verification, the credibility of information disclosed is arguably questionable. The reasons for this phenomenon may be attributed to the lack of statutory requirements, the presence of few organised social groups and less social awareness, an under-developed corporate reporting culture and relatively new or inefficient stock markets. However, this conclusion is subject to certain limitations, as mentioned previously, and requires further research. As this study is based on three small samples, the conclusions are only tentative. Moreover, the study focused only on the industrial sector. Hence, the conclusions arrived at should not be generalised to the non-industrial sector. A longitudinal study based on a reasonably large sample, which includes the non-industrial sector, is needed to highlight trends and motivations behind CSR disclosure practices internationally and more specifically in developing countries such as Egypt and India.

An interesting by-product of this research relates to the Egyptian sample. Although beyond the scope of the present research, there appears to be some evidence of audience expectation regarding overall disclosures in general, and CSR disclosures in particular in Egypt. Several companies seem to be reporting different items in different ways in their Arabic language versus their English language annual reports. This is a crucial area for further research into the motivations behind the CSR disclosure decision. Due to the linguistic limitations of the researcher, only the English language reports of Indian companies were examined, therefore, it is unknown whether or not a similar disparity exists between the English and Hindi versions of Indian annual reports.

Finally, while a disclosure index was deemed appropriate due to the exploratory nature of the present research, further content analysis studies on the same samples would undoubtedly enhance our understanding of CSR disclosure practices in developing countries and are therefore worth pursuing.

9.5 Conclusion

By relying on the tenets of bourgeois political economy and its spin-off legitimacy theory, it was argued in chapter two, that corporate social disclosures are mechanisms used by organisations to protect their own self-interests and deflect the attention and intervention of regulatory bodies. That is, companies make corporate social disclosures to advocate and enhance the entity's position and image, promote customer and community relations with the incentive of indirectly assisting to promote products and services. This, therefore, implies that companies are more likely to use additional mass media vehicles, such as the World Wide Web, in conjunction with annual reports to make corporate social disclosures. Despite various studies acknowledging that to fully understand CSR disclosure practices, researchers must investigate these alternative mass mediums (see, for example, Guthrie and Mathews, 1985; Roberts, 1991; Kirkman and Hope, 1992; Gray *et al*, 1995a); few studies have attempted to provide any evidence (Zeghal and Ahmed, 1990; Deegan and Rankin, 1997;

Williams and Pei, 1999). The present research, though limited in regards to the number of companies surveyed, has nonetheless supported this presumption.

While the results of this study have demonstrated that corporate social reporting is clearly not a culture specific phenomenon, they have also unequivocally shown that it is a very culturally sensitive one. Having examined the demographic, economic, political and technology trends in three dissimilar national contexts, it is the conclusion of this research that while numerous variations exist, the pressures on companies worldwide to become more transparent, accountable, responsible and ultimately to help supply chains and economies to become more sustainable can only grow.

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Notes

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Appendices

Appendix A: FTSE 100

#	Registered Company Name	Industry Grouping	Exclusion Rationale
1	BAE Systems	Aerospace	
2	Rolls-Royce	Aerospace	
3	Smiths Group	Aerospace	
4	GKN	Auto	
5	Abbey National	Banking	Non-industrial
6	Alliance & Leicester	Banking	Non-industrial
7	Barclays	Banking	Non-industrial
8	Bradford & Bingley	Banking	Non-industrial
9	HBOS	Banking	Non-industrial
10	HSBC Holdings	Banking	Non-industrial
11	Lloyds TSB Group	Banking	Non-industrial
12	Northern Rock	Banking	Non-industrial
13	Royal Bank of Scotland Group	Banking	Non-industrial
14	Standard Chartered	Banking	Non-industrial
15	Allied Domencq	Beverage	
16	Diageo	Beverage	
17	SAB Miller	Beverage	
18	Scottish and Newcastle	Beverage	
19	Hanson	Building	
20	Wolseley	Building	
21	BOC Group	Chemical	
22	Imperial Chemical Industries	Chemical	
23	Johnson Matthey	Chemical	
24	National Grid Transco	Electric	
25	Scottish and Southern Energy	Electric	
26	Scottish Power	Electric	
27	Invensys	Electronics	
28	Tomkins	Engineering	
29	Amvescap	Finance	Non-industrial
30	Man Group	Finance	Non-industrial
31	Schroders Ord	Finance	Non-industrial
32	Associated British Foods	Food	
33	Cadbury Schweppes	Food	
34	Morrison William Supermarkets	Food	
35	Safeway	Food	
36	Sainsbury J	Food	
37	Tesco	Food	
38	Unilever	Food	
39	BG Group	Gas	
40	Centrica	Gas	
41	Alliance UniChem	Health	Non-industrial
42	Amrsham	Health	Non-industrial
43	Smith & Nephew	Health	Non-industrial
44	Royal & Sun Alliance Insurance	Insurance	Non-industrial
45	3I Group	Investment	Non-industrial

46	Compass Group	Leisure	Non-industrial
47	Hilton Group	Leisure	Non-industrial
48	Six Continents	Leisure	Non-industrial
49	Whitbread	Leisure	Non-industrial
50	Aviva	Life Insurance	Non-industrial
51	Friends Provident	Life Insurance	Non-industrial
52	Legal & General Group	Life Insurance	Non-industrial
53	Old Mutual	Life Insurance	Non-industrial
54	Prudential	Life Insurance	Non-industrial
55	British Sky Broadcasting	Media	Non-industrial
56	Daily Mail & General Trust	Media	Non-industrial
57	EMAP	Media	Non-industrial
58	Granada	Media	Non-industrial
59	Pearson	Media	Non-industrial
60	Reed Elsevier	Media	Non-industrial
61	Reuters Group	Media	Non-industrial
62	WPP Group	Media	Non-industrial
63	Anglo American	Mining	
64	BHP Billiton	Mining	
65	Rio Tinto	Mining	
66	Xstrata	Mining	
67	BP	Oil	
68	Shell Transport and Trading	Oil	
69	Reckitt Benckiser	Personal	Non-industrial
70	AstraZeneca	Pharmaceuticals	
71	GlaxoSmithKline	Pharmaceuticals	
72	Shire Pharmaceuticals Group	Pharmaceuticals	
73	British Land Company	Real Estate	Non-industrial
74	Canary Wharf Group	Real Estate	Non-industrial
75	Land Securities	Real Estate	Non-industrial
76	Liberty International Group	Real Estate	Non-industrial
77	Boots Company	Retail	Non-industrial
78	Dixons Group	Retail	Non-industrial
79	GUS	Retail	Non-industrial
80	Kingfisher	Retail	Non-industrial
81	Marks & Spencer Group	Retail	Non-industrial
82	Next	Retail	Non-industrial
83	Bunzl	Services	Non-industrial
84	Capita Group	Services	Non-industrial
85	Hays	Services	Non-industrial
86	Rentokil Initial	Services	Non-industrial
87	Rexam	Services	Non-industrial
88	Sage Group	Software	
89	BT Group	Telecommunications	
90	MM02	Telecommunications	
91	Vodaphone Group	Telecommunications	
92	British American Tobacco	Tobacco	
93	Gallaher Group	Tobacco	

94	Imperial Tobacco Group	Tobacco	
95	BAA	Transport	Non-industrial
96	British Airways	Transport	Non-industrial
97	Exel	Transport	Non-industrial
98	P & O Princess Cruises	Transport	Non-industrial
99	Severn Trent	Water	
100	United Utilities	Water	

Appendix B: Cairo and Alexandria Stock Exchange Top 100

Rank	Company Registered Name	Sector	Exclusion Rationale
1	Telecom Egypt	Telecom	
2	MIDOR	Const. Materials	MNC
3	Cairo Barclays Bank	Financial	Non industrial
4	Egyptian Company for Mobile Services	Telecom	
5	Orascom Construction Industries	Const. Materials	
6	Suez Cement	Const. Materials	
7	Golden Pyramids Plaza	Hotels	Non industrial
8	Commercial International Bank	Financial	Non industrial
9	Assuit Cement	Const. Materials	
10	Egyptian Media Production City	Entertainment	Non industrial
11	Abu Qir Fertilizers and Chemical Industries	Chemicals	
12	Egyptian Iron and Steel	Const. Materials	
13	AlAhram Beverages Company	Food/Beverage/Tobacco	
14	Exxon Mobil	Oil/Gas	MNC
15	Eastern Tobacco Company	Food/Beverage/Tobacco	
16	Arab International Investment Company	Multi Holdings	Non industrial
17	Commercial International Investment Company	Multi Holdings	Non industrial
18	Delta Sugar	Food/Beverage/Tobacco	
19	HSBC Bank of Egypt	Financial	Non industrial
20	Alexandria National Iron and Steel	Const. Materials	
21	National Cement (Kawmia)	Const. Materials	MNC
22	Sugar and Integrated Industries	Food	
23	Egyptian Cement Company	Const. Materials	
24	National Societe General Bank	Financial	Non industrial
25	Orascom Telecom	Utilities	
26	Dreamland Urban Development	Real Estate	Non industrial
27	Torah Cement	Const. Materials	Subsidiary of #6
28	Delta International Bank	Financial	Non industrial
29	Misr Exterior Bank	Financial	Non industrial
30	Tholathia Trade and Marketing	Retailing	Non industrial
31	National Tourism and Hotels	Hotels	Non industrial
32	GlaxoSmithKline	Pharmaceuticals	MNC
33	Egypt Kuwait Holding Company	Multi Holdings	Non industrial
34	ASEC-Helwan Cement	Const. Materials	MNC
35	National Gas Company	Oil/Gas	
36	Misr Romania Bank	Financial	Non industrial
37	Tholathia Investment	Multi Holdings	Non industrial
38	Egyptian International Pharmaceutical Industries	Pharmaceuticals	
39	Oriental Weavers	Textiles	
40	World Trade Centre Company- Cairo	Real Estate	Non industrial

41	Arab Insurance Group	Insurance	Non industrial
42	Ameriyah Cement	Const. Materials	
43	Nile City Investment	Multi Holdings	Non industrial
44	Reach Trade and Marketing	Services	Non industrial
45	Egyptian Arab Engineering and Real Estate	Real Estate	Non industrial
46	Arab Iron Factory	Const. Materials	
47	Egypt Aluminium	Const. Materials	
48	Alexandria Containers and Goods	Marine	Non industrial
49	Marine and Petroleum Services	Energy	MNC
50	Misr International Bank	Financial	Non industrial
51	Misr Iran Development Bank	Financial	Non industrial
52	Arab African International Bank	Financial	Non industrial
53	Orascom for Investment and Development	Real Estate	Non industrial
54	Amoun	Pharmaceuticals	
55	RG Investment	Financial	Non industrial
56	Chipsy Food Industries	Food/Beverage/Tobacco	MNC
57	Natural Gas and Mining Project	Oil/Gas	MNC
58	Misr Shipping	Marine	Non industrial
59	Amoun Pharmaceutical Industries	Pharmaceuticals	Subsidiary of # 54
60	Arabia Tourisn Development	Real Estate	Non industrial
61	Arab Company for Touristic Projects	Hotels	Non industrial
62	Egyptian American Bank	Financial	Non industrial
63	Zahraa Maadi Investment and Development	Real Estate	Non industrial
64	Suez Canal Bank	Financial	Non industrial
65	Export Development Bank of Egypt	Financial	Non industrial
66	Societe Arabe International de Banque	Financial	Non industrial
67	AlWatany Bank of Egypt	Financial	Non industrial
68	Beni Suef Cement Company	Const. Materials	MNC
69	Medinet Nasr Housing and Development	Real Estate	Non industrial
70	Cairo and Paris Bank	Financial	Non industrial
71	Dreamland Pyramids Golf	Hotels	Non industrial
72	Misr Qena Cement	Const. Materials	
73	Delta Industries	Retailing	Non industrial
74	Remco for Touristic Villages	Hotels	Non industrial
75	ElMasreya Tourism and Hotels	Hotels	Non industrial
76	Canal Shipping Industries	Marine	Non industrial
77	Arab Banking Corporation	Banks	Non industrial
78	Paints and Chemical Industries	Chemicals	
79	IDEAL Trading	Retailing	Non industrial
80	Americana Group	Food	MNC
81	DINA for Agriculture and Investment	Food	
82	Faisal Islamic Bank of Egypt	Financial	Non industrial
83	Heliopolis Housing and Development	Real Estate	Non industrial
84	Arab Cables Company	Const. Materials	

85	Mantrac	Const. Materials	MNC
86	Orascom Hotel Holdings	Hotels	Non industrial
87	Suez Canal for Educational Services	Services	Non industrial
88	Sinai Cement Company	Const. Materials	MNC
89	AlAmal Clay Bricks	Const. Materials	
90	Egyptian Glass Company	Const. Materials	
91	Amriyah Pharmaceutical Industries	Pharmaceuticals	
92	Taba Tourism Development	Hotels	Non industrial
93	Misr Beni Suef Cement	Const. Materials	Subsidiary of # 68
94	Egyptian Real Estate Group	Real Estate	Non industrial
95	Isis for Hotels and Touristic Real Estate	Hotels	Non industrial
96	Alexandria Cement	Const. Materials	
97	Saudi Egyptian Construction	Construction	
98	Misr Hotels – Hilton	Hotels	Non industrial
99	Credit Agricole Indosuez	Financial	Non industrial
100	South Egypt Drug Industries Company	Pharmaceuticals	

Appendix C: Bombay Stock Exchange Top 100

Rank	Company Listed Name	Industry Segment	Exclusion Rationale
1	Oil & Natural Gas Corp, Ltd.	Oil	
2	Reliance Industries, Ltd.	Oil	
3	Indian Oil Corporation	Oil	
4	Vatsa Music, Ltd	FMCG	Non-industrial
5	Hindustan Lever	FMCG	MNC
6	Wipro, Ltd.	Computer Services	Non-industrial
7	Infosys Technologies	Computer Services	Non-industrial
8	State Bank of India	Financial	Non-industrial
9	ITC Ltd	Food, Beverage and Tobacco	
10	Bharti Tele-Ventures	Telecommunications	
11	Ranbaxy Laboraties	Pharmaceutical	
12	Steel Authority of India	Construction Materials	
13	GAIL (India), Ltd	Oil/Gas	
14	ICICI Bank, Ltd.	Financial	Non-industrial
15	Tata Iron and Steel Co.	Construction Material	
16	Housing Development Finance Corp	Financial	Non-industrial
17	Tata Motors, Ltd	Automobile	
18	Hindustan Petroleum Corporation	Oil	
19	Bharat Heavy Electricals	Electronics	
20	Bharat Petroleum Corporation	Oil	
21	Larsen & Toubro	Construction Materials	
22	Maruti Udyog, Ltd.	Manufacturing	MNC
23	Hindalco Industries, Ltd.	Mining	
24	Satyam Computer Services	Computer Services	Non-industrial
25	Dr. Reddy's Laboratories	Pharmaceutical	
26	National Aluminium Co.	Construction Materials	
27	HDFC Bank	Financial	Non-industrial
28	Grasim Industries, Ltd.	Textiles	Subsidiary of #23
29	Mangalore Refinery & Petrochemicals	Oil	Joint Venture (#18 and #23)
30	Bajaj Auto, Ltd.	Automobile	
31	Neyveli Lignite Corporation	Mining	
32	HCL Technologies	Computer Services	Non-industrial
33	Hero Honda Motors	Automobile	MNC
34	Mahanagar Telephone Nigam, Ltd.	Telecommunication	
35	BSES Ltd.	Utilities	Non-industrial
36	Cipla Ltd	Pharmaceutical	
37	Tata Power Company	Utilities	
38	Punjab National Bank	Financial	Non-industrial
39	National Mineral Development Corporation	Mining	

40	Bank of Baroda	Financial	Non-industrial
41	Zee Telefilms, Ltd	Media	Non-industrial
42	Nestle India	FMCG	MNC
43	Canara Bank	Financial	Non-industrial
44	Sun Pharmaceutical Industries	Pharmaceutical	MNC
45	I-Flex Solutions	Computer Services	Non-industrial
46	Sterlite Industries		
47	Oriental Bank of Commerce	Financial	Non-industrial
48	Shipping Corporation of India	Transport/Shipping	Non-industrial
49	Mahindra & Mahindra	Automotive	
50	Hindustan Zinc, Ltd.	Manufacturing	
51	Videsh Sanchar Nigam, Ltd.	Telecommunication	
52	Indian Petrochemicals Corporation	Oil	Subsidiary of #2
53	Gujarat Ambuja Cements	Construction Materials	
54	Bharat Electronics	Electronics	Subsidiary of #19
55	Industrial Development Bank of India	Financial	Non-industrial
56	Motor Industries Company	Automobile	MNC
57	GlaxoSmithKline Pharmaceuticals	Pharmaceutical	MNC
58	Container Corporation of India	Transport/Shipping	Non-industrial
59	Associated Cement Companies	Construction Materials	
60	Corporation Bank	Financial	Non-industrial
61	UTI Bank, Ltd.	Financial	Non-industrial
62	Moser Baer India	Technology	
63	Nirma, Ltd.	FMCG	
64	Asian Paints	Chemicals	
65	Bank of India	Financial	Non-industrial
66	Siemens, Ltd.	Computer	MNC
67	Ashok Leyland, Ltd.	Manufacturing	
68	ABB, Ltd.	Manufacturing	MNC
69	Great Eastern Shipping Company	Transport/Shipping	Non-industrial
70	Bharat Forge, Ltd.	Transport/Shipping	Non-industrial
71	Digital Globalsoft	Computer	MNC
72	Nicholas Piramal India	Pharmaceutical	
73	Tata Teleservices (Maharashtra)	Telecommunication	
74	Lupin, Ltd.	Pharmaceutical	
75	Dabur India	Pharmaceutical	
76	Castrol India	Oil	MNC
77	Rashtriya Chemicals & Fertilizers	Chemical	
78	Cadila Healthcare	Pharmaceutical	
79	Union Bank of India	Financial	Non-industrial
80	Kochi Refineries	Oil	Subsidiary of #20
81	Wockhardt Ltd.		MNC
82	TVS Motor Company	Automobile	

83	Vijaya Bank	Financial	Non-industrial
84	Jaiprakash Industries	Construction Materials	
85	Engineers India, Ltd.	Engineering	
86	Gillette India	FMCG	MNC
87	Tata Chemicals, Ltd.	Chemicals	
88	National Fertilizers	Chemicals	
89	Cummins India	Computer	MNC
90	Mphasis BFL Ltd.	Financial	Non-industrial
91	Kotak Mahindra Bank, Ltd.	Financial	Non-industrial
92	Andhra Bank	Financial	Non-industrial
93	Indian Overseas Bank	Financial	Non-industrial
94	Colgate-Palmolive (India) Ltd	FMCG	MNC
95	Indian Hotels Company	Hotels	Non-industrial
96	Polaris Software Lab	Computer	MNC
97	Tata Tea	FMCG	
98	Aurobindo Pharmaceuticals	Pharmaceutical	
99	Jammu & Kashmir Bank	Financial	Non-industrial
100	Matrix Laboratories	Pharmaceutical	

Appendix D: Initial Disclosure Index

1 Employees

1.1 General Policy
1.2 Benefits
1.3 Compensation and Rewards
1.4 Training and Development
1.5 Career Planning
1.6 Employee Assistance Programs
1.7 Health Promotion
1.8 Absenteeism and Turnover
1.9 Leaves of Absence
1.10 Relationships with Unions
1.11 Dismissal and Appeal
1.12 Termination, Layoffs and Redundancy
1.13 Retirement and Termination Counseling
1.14 Employment Equity and Discrimination
1.15 Women in Management and on the Board
1.16 Day care and Family Accommodation
1.17 Employee Communication
1.18 Occupational Health and Safety
1.19 Part-time, temporary, or contract employees
1.20 Other employee or human resource issues

2 Customers

2.1 General Policy
2.2 Customer Communications
2.3 Product Safety
2.4 Customer Complaints
2.5 Special Customer Services

3 Environment

3.1 Conservation of Energy and Materials
3.2 Environmental Assessment of Capital Projects
3.3 Environmental Audit/ ISO 14000
3.4 Recycling and Waste Management

4 General/ Public Stakeholders

4.1 Mission, Purpose or Corporate Code
4.2 Public health, safety and protection
4.3 Public Policy Involvement
4.4 Community relations
4.5 Social Investment and Donations

Appendix E: Revised Disclosure Index

	Company Name: Exchange: Industry:	Annual Report 2002	Annual Report 2003	Website
1	**Employee Related**			
1.1	General Policy			
1.2	Compensation, Benefits and Rewards			
1.3	Training and Development/ Career Planning			
1.4	Employee Assistance Programs			
1.5	Occupational Health and Safety/ Health Promotion			
1.6	Relationships with Unions			
1.7	Absenteeism and Turnover			
1.8	Leaves of Absence			
1.9	Termination, Layoffs, Redundancy and Appeals			
1.10	Retirement and Termination Counseling			
1.11	Employment Equity and Diversity			
1.12	Women in Management and on the Board			
1.13	Employee Communication			
2	**Customer Related**			
2.1	General Policy			
2.2	Customer Communications/ Services/ Complaints			
2.3	Product Safety			
2.4	Responsible Consumerism Promotion			
3	**Environment Related**			
3.1	Environmental KPIs			
3.2	Conservation of Energy and Materials			
3.3	Environmental Assessment of Capital Projects			
3.4	Environmental Audit/ ISO 14000			
3.5	Recycling and Waste Management			
3.6	Greening Policies/ Efforts			
3.7	Sustainability Initiatives			
4	**Public Stakeholder Related**			
4.1	Mission, Purpose or Corporate Code			
4.2	Public Health, Safety and Protection			
4.3	Public Policy Involvement			
4.4	Community relations			
4.5	Social Investment and Donations			
4.6	Fair Competition/ Anti-Trust			
4.7	Anti-corruption/Bribery			
4.8	Corporate Governance			
5	**Benchmarking**			
5.1	Compliance (Combined Code, etc)			
5.2	Reporting Guidelines (GRI, etc)			
5.3	International Awards			
5.4	External Verification/ Assurance			

Stand Alone Reports:

Environmental CSR Sustainability Other:____________________

Requested Part of Investor Pkt

Comments:

Appendix F: CASE Listing Requirements as of 18/06/2002

I General Guidelines to Listing

1. All financial securities (shares, bonds, close-ended funds etc.) that request listing on CASE, must be scriptless and part of the Central Depository System.
2. Listed companies must have no restrictions, in their statutes or laws, against the trading of their securities on CASE.
3. Listing and de-listing decisions is the sole responsibility of the Listing Committee at CASE. The Listing Committee is chaired by the Chairman of CASE and its members are selected from the following:
    - One member appointed by the CMA.
    - Two employees from CASE chosen by the Board of Directors of CASE.
    - One member from the 10 most active listed & traded companies on CASE.
    - One member from the securities firms operating under Capital Market Law No. 95/1992.
    - One member from the Egyptian Society of Accountants and Auditors.
4. The request of the issuer or listed company for listing will be published at the Exchange's web site (www.egyptse.com), the daily bulletins issued by the Exchange and on the trading floors of Cairo and Alexandria, for ten days, prior to its listing. During this period, public comments can be submitted in writing, to the Listing Committee of CASE.

II Listing Schedules

Official Schedule (1)

Issuers listed on Official Schedule (1) must satisfy the following conditions:

a. Must have at least 30% free of their shares with at least 150 shareholders.
b. Provide financial statements for the last three years of operation.
c. Minimum fully paid issued capital amounts to LE 20 million.
d. Most recent annual earnings before tax amounts to 5% of the paid up capital.
e. Total shareholders equity must be more than paid up equity for the last two years.
f. A minimum number of shares amounting to 2 million.

Official Schedule (2)

The following securities are automatically listed on the official schedule (2):

a. Securities issued by the government.
b. Shares and other securities issued by public sector companies.

Issuers listed on Official Schedule (2) must fulfil the same financial criteria applicable to Official Schedule (1) stated above in points (a) through (f).

Unofficial Schedule (1)

Issuers listed on Unofficial Schedule (1) must satisfy the following conditions:

a. Must have at least 10% free of their shares with at least 50 shareholders.
b. Provide financial statements for at least one year of operation.
c. Minimum fully paid issued capital amounts to LE 10 million.
d. Most recent annual earnings before taxes amount to 5% of the paid up capital.
e. Total Shareholders equity should be more than paid up capital at least for one year.
f. A minimum number of shares amounting to 1 million.

Unofficial Schedule (2)

Issuers listed on Unofficial Schedule (2) must satisfy the following conditions:

a. Provide financial statements for at least one year of operation.
b. Minimum fully paid issued capital amounts to LE 5 million.
c. Most recent annual earnings taxes amounts to 1% of the paid up capital.
d. Total shareholders equity must be more than the paid up capital for one year.
e. A minimum number of shares amounting to 500,000.

III Disclosure Rules

1. Disclosure rules are mandatory for all listed companies on all CASE schedules, unless otherwise explicitly stated.
2. The issuer or listed company should refrain from engaging in promotional activities, which might affect investors negatively and prevent them from taking well-informed investment decisions. Such acts includes inappropriately worded news releases, public announcements that are not justified by actual or factual business, exaggerated reports or predictions, flamboyant and other forms of overstated or over-zealous disclosure activities, which could mislead investors and cause unfavourable and unusual price movements in the issuers' securities prices.
3. The issuer or listed company should refrain from disclosing any given information, specifically designated to financial analysts, financial institutions or other parties,

before disclosing them to the market as a whole. (Ensure fair disclosure to all entities at the same time).

4. The issuer must appoint a senior employee as an "Investor Relations Officer", whose main responsibility is provide information and answer queries of the Exchange, respond to queries from shareholders and institutional investors. The Investor Relations Officer must prepare and provide press releases to the market, as requested by the Exchange.

Organization and Corporate Governance

1. Notify CASE in detail about the board of directors of the issuer, its key officers including their work experiences, background, qualifications, training, expertise, etc.
2. Business contracts between the company and its directors, management and shareholders.
3. Business contracts with related parties.
4. Organizational structure of the issuer (it must be shown if the company is a holding company or a subsidiary).
5. Detailed percent of shareholders structure (detailed ownership) in both the holding company and subsidiaries that equals or exceeds 5%.
6. All transactions between the issuer and any of its shareholders or any of the shareholders in its subsidiaries.
7. The existence of a nominating committee that nominates directions.
8. The existence of an audit committee, the names of its members and the description of its duties.
9. The internal procedures and regulations undertaken by the issuer, which do not permit a director or any other insider, from purchasing or selling securities of the company, based on insider information.

Regarding Financial Statements and Financial Reporting

1. Send a copy of the financial statements, immediately after issuance of the Auditor's Report to the Exchange, within a maximum of three months period after the fiscal year end.
2. Publish a "Board Report" that provides an overview about the company activities during the year.
3. Send a copy of the quarterly financial statements, accompanied by a review report, to the Exchange, within a maximum of forty-five days, after their issuance.
4. The financial statements of the issuer must be prepared, in accordance with the Egyptian Generally Accepted Accounting Principles (EGAAP). The EGAAP follow the International Accounting Standards, with few exceptions.
5. Issuers whose securities are listed on the Official schedule (1), (2) and Unofficial schedule (1) must publish their financial statements, together with the footnotes and the auditor's report, in two daily morning and widely circulated newspapers, one of which, must be in Arabic.
6. Issuers whose securities are listed on Unofficial schedule (2) must publish the annual financial statements, together with the footnotes and the auditor's report, as soon as being approved by the General assembly, in the daily bulletins published by the Exchange.

Regarding Material Events

1. If a material or significant event (change) occurs, the issuer must immediately notify the Exchange. Material events include but are not limited to: new issue of bonds, material changes in shareholders' structure, purchase of treasury securities, change in the issuer's financial leverage, material changes in investment policies, government decrees that might affect the issuers' activities etc.
2. Directors and senior managers of the company must inform the Exchange of their trading on the company's shares, before their execution.

Regarding Dividends

1. The issuer must publish the decisions of the General Assembly Meeting concerning the declaration of cash or stock dividends in two daily morning, widely circulated newspapers, one of them in Arabic.
2. The listed company must start the legal procedures concerning the increase of capital by issuing stock dividends, once the general assembly decision is taken.
3. The issuer must inform the Exchange of the payment date (cash or stock dividends) fifteen days prior to such date, together with the announcement in two daily morning, widely spread newspapers.

IV Penalties

1. De-listing

- Securities are de-listed from the various schedules:
  - a. If listing was based on incorrect information.
  - b. If the company does not comply with the listing rules, a month from being informed by the Exchange.
  - c. If the financial statements of the company in two successive years, after listing does not comply with the financial standards set in the listing rules.
- Foreign securities are automatically de-listed if they were de-listed from their home markets, and if they fail to meet the obligations stated in these rules. The foreign securities are de-listed after three months from being informed by CASE.

2. Administrative Penalties

- A penalty LE 5,000, if the issuer failed to disclose information that results in loss to investors. The penalties could be doubled in case of re-occurrence during the same year.
- Failure to send the required financial statements and information or publishing them at the required time, results in a penalty of LE 500 in the first five days of delay. LE 100 increases this amount for each day subsequent to this period. In case of a delay period exceeding thirty days, the Exchange may consider de-listing of the company.

Key Listing Requirements [Table 1]

Requirements	Official Schedule (1)	Official Schedule (2)	Unofficial Schedule (1)	Unofficial Schedule (2)
Minimum shareholder or ownership for public offerings and/or private placements	30%	-----	10%	----
Minimum number of shareholders	**150**	**----**	**50**	**----**
Minimum years of operation	3	3	2	1
Minimum issued and paid-up capital	**LE 20 million**	**LE 20 million**	**LE 10 million**	**LE 5 million**
Minimum net profit before taxes as a percent of issued capital	5%	5%	5%	1%
Shareholders' equity must not be less than total issued and paid-up capital	**Required**	**Required**	**Required**	**Required**
Minimum number of issued shares	**2 million**	**2 million**	**1 million**	**0.5 million**
Source: Listing Department, CASE (2002)				

49. Corporate Governance

The company agrees to comply with the following provisions:

Board of Directors

Composition of Board

(i) The board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors. The number of independent directors would depend on whether the Chairman is executive or non-executive. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should comprise of independent directors.

Explanation (i): For the purpose of this clause, the expression 'independent director' shall mean non-executive director of the company who

a. Apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its senior management or its holding company, its subsidiaries and associated companies;
b. Is not related to promoters or management at the board level or at one level below the board;
c. Has not been an executive of the company in the immediately preceding three financial years;
d. Is not a partner or an executive of the statutory audit firm or the internal audit firm that is associated with the company, and has not been a partner or an executive of any such firm for the last three years. This will also apply to legal firm(s) and consulting firm(s) that have a material association with the entity.
e. is not a supplier, service provider or customer of the company. This should include lessor-lessee type relationships also; and
f. is not a substantial shareholder of the company, i.e. owning two percent or more of the block of voting shares.

Explanation (ii): Institutional directors on the boards of companies shall be considered as independent directors whether the institution is an investing institution or a lending institution.

Non executive directors' compensation and disclosures

(i) All compensation paid to non-executive directors shall be fixed by the Board of Directors and shall be approved by shareholders in general meeting. Limits shall be set for the maximum number of stock options that can be granted to non-executive directors in any financial year and in aggregate. The stock options granted to the non-executive directors shall vest after a period of at least one year from the date such non-executive directors have retired from the Board of the Company.

(ii) The considerations as regards compensation paid to an independent director shall be the same as those applied to a non-executive director.

(iii) The company shall publish its compensation philosophy and statement of entitled compensation in respect of non-executive directors in its annual report. Alternatively, this may be put up on the company's website and reference drawn thereto in the annual report. Company shall disclose on an annual basis, details of shares held by non-executive directors, including on an "if-converted" basis.

(iv) Non-executive directors shall be required to disclose their stock holding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should accompany their notice of appointment

Independent Director

(i) Independent Director shall however periodically review legal compliance reports prepared by the company as well as steps taken by the company to cure any taint. In the event of any proceedings against an independent director in connection with the affairs of the company, defence shall not be permitted on the ground that the independent director was unaware of this responsibility.

(ii) The considerations as regards remuneration paid to an independent director shall be the same as those applied to a non executive director

Board Procedure

(i) The board meeting shall be held at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure-IA.

(ii) A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation: For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies (i e private limited companies, foreign companies and companies under Section 25 of the Companies Act, etc) shall be excluded.

(iii) Further only the three committees viz. the Audit Committee, the Shareholders' Grievance Committee and the Remuneration Committee shall be considered for this purpose.

Code of Conduct

(i) It shall be obligatory for the Board of a company to lay down the code of conduct for all Board members and senior management of a company. This code of conduct shall be posted on the website of the company.

(ii) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed by the CEO and COO.
Explanation: For this purpose, the term "senior management" shall mean personnel of the company who are members of its management / operating council (i.e. core management team excluding Board of Directors). Normally, this would comprise all members of management one level below the executive directors

Term of Office of Non-executive directors

(i) Person shall be eligible for the office of non-executive director so long as the term of office did not exceed nine years in three terms of three years each, running continuously.

Audit Committee
Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up and shall comply with the following:

(i) The audit committee shall have minimum three members. All the members of audit committee shall be non-executive directors, with the majority of them being independent.

(ii) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
Explanation (i): The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.
Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

(iii) The Chairman of the Committee shall be an independent director;

(iv) The Chairman shall be present at Annual General Meeting to answer shareholder queries;

(v) The audit committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and when required, a representative of the external auditor shall be present as invitees for the meetings of the audit committee;

(vi) The Company Secretary shall act as the secretary to the committee.

Meeting of Audit Committee

The audit committee shall meet at least thrice a year. One meeting shall be held before finalization of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the audit committee, whichever is higher and minimum of two independent directors.

Powers of Audit Committee

The audit committee shall have powers which should include the following:

(i) To investigate any activity within its terms of reference.

(ii) To seek information from any employee.

(iii) To obtain outside legal or other professional advice.

(iv) To secure attendance of outsiders with relevant expertise, if it considers necessary.

Role of Audit Committee

(i) The role of the audit committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
3. Reviewing with management the annual financial statements before submission to the board, focusing primarily on;
   a. Any changes in accounting policies and practices.
   b. Major accounting entries based on exercise of judgment by management.
   c. Qualifications in draft audit report.
   d. Significant adjustments arising out of audit.
   e. The going concern assumption.
   f. Compliance with accounting standards.
   g. Compliance with stock exchange and legal requirements concerning financial statements
   h. Any related party transactions
4. Reviewing with the management, external and internal

auditors, the adequacy of internal control systems.

5. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
6. Discussion with internal auditors any significant findings and follow up there on.
7. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
8. Discussion with external auditors before the audit commences about nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
9. Reviewing the company's financial and risk management policies.
10. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
    Explanation (i): The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.
    Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the company agrees that the said audit committee shall have such additional functions / features as is contained in the Listing Agreement.

Review of information by Audit Committee

(i) The Audit Committee shall mandatorily review the following information:

1. Financial statements and draft audit report, including quarterly / half-yearly financial information;
2. Management discussion and analysis of financial condition and results of operations;
3. Reports relating to compliance with laws and to risk management;
4. Management letters / letters of internal control weaknesses issued by statutory / internal auditors; and
5. Records of related party transactions
6. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

Audit Reports and Audit Qualifications
Disclosure of Accounting Treatment

In case it has followed a treatment different from that prescribed in an Accounting Standards, management shall justify why they believe such alternative treatment is more representative of the underlined business transactions. Management shall also clearly explain the alternative accounting treatment in the footnote of financial statements.

Whistle Blower Policy
Internal Policy on access to Audit Committees:

(i) Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors.
(ii) Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.
(iii) Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct) and that it has provided protection to "whistle blowers" from unfair termination and other unfair or prejudicial employment practices.
(iv) Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.
(v) The appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the Audit Committee.

V. Subsidiary Companies

i. The company agrees that provisions relating to the composition of the Board of Directors of the holding company shall be made applicable to the composition of the Board of Directors of subsidiary companies

ii. At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of the subsidiary company.

iii. The Audit Committee of the holding company shall also review the financial statements, in particular the investments made by the subsidiary company.

iv. The minutes of the Board meetings of the subsidiary company shall be placed for review at the Board meeting of the holding company.

v. The Board report of the holding company should state that they have reviewed the affairs of the subsidiary company also

VI. Disclosure of contingent liabilities

i. The company agrees that management shall provide a clear description in plain English of each material contingent liability and its risks, which shall be accompanied by the auditor's clearly worded comments on the management's view. This section shall be highlighted in the significant accounting policies and notes on accounts, as well as, in the auditor's report, where necessary.

VII. Disclosures

A. Basis of related party transactions

(i) A statement of all transactions with related parties including their basis shall be placed before the Audit Committee for formal approval/ratification. If any transaction is not on an arm's length basis, management shall provide an explanation to the Audit Committee justifying the same.

B. Board Disclosures -Risk management

(i) It shall put in place procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(ii) Management shall place a report certified by the compliance officer of the company, before the entire Board of Directors every quarter documenting the business risks faced by the company, measures to address and minimize such risks, and any limitations to the risk taking capacity of the corporation. This document shall be formally approved by the Board.

C. Proceeds from Initial Public Offerings (IPOs)

(i) When money is raised through an Initial Public Offering (IPO) it shall disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus. This statement shall be certified by the independent auditors of the company. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

D. Remuneration of Directors

a. All pecuniary relationship or transactions of the non-executive director's vis-à-vis the company shall be disclosed in the Annual Report.

   (i) Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the annual report.

      a. All elements of remuneration package of all the directors i.e. salary, benefits, bonuses, stock options, pension etc.
      b. Details of fixed component and performance linked incentives, along with the performance criteria.
      c. Service contracts, notice period, severance fees.
      d. Stock option details, if any - and whether issued at a discount as well as the period over which accrued and over which exercisable.

E. Management

(i) As part of the directors' report or as an addition there to, a Management Discussion and Analysis report should form part of the annual report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:

   a. Industry structure and developments.
   b. Opportunities and Threats.

c. Segment-wise or product-wise performance.
d. Outlook
e. Risks and concerns.
f. Internal control systems and their adequacy.
g. Discussion on financial performance with respect to operational performance.
h. Material developments in Human Resources / Industrial Relations front, including number of people employed.

Management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

F. **Shareholders**

(i) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
   a. A brief resume of the director;
   b. Nature of his expertise in specific functional areas ; and
   c. Names of companies in which the person also holds the directorship and the membership of Committees of the board.
(ii) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
(iii) A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.
(iv) To expedite the process of share transfers the board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

VIII. **CEO/CFO certification**

i. CEO (either the Executive Chairman or the Managing Director) and the CFO (whole-time Finance Director or other person discharging this function) of the company shall certify that, to the best of their knowledge and belief:

   a. They have reviewed the balance sheet and profit and loss account and all its schedules and notes on accounts, as well as the cash flow statements and the Directors' Report;
   b. These statements do not contain any materially untrue statement or omit any material fact nor do they contain statements that might be misleading;
   c. These statements together present a true and fair view of the company, and are in compliance with the existing accounting standards and / or applicable laws / regulations;
   d. They are responsible for establishing and maintaining internal controls and have evaluated the effectiveness of internal control systems of the company; and they have also disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, and what they have done or propose to do to rectify these;
   e. They have also disclosed to the auditors as well as the Audit Committee, instances

of significant fraud, if any, that involves management or employees having a significant role in the company's internal control systems; and

f. They have indicated to the auditors, the Audit Committee and in the notes on accounts, whether or not there were significant changes in internal control and / or of accounting policies during the year.

ii.

IX. Report on Corporate Governance

i. There shall be a separate section on Corporate Governance in the annual reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement i.e. which is part of the listing agreement with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure-1B and list of non-mandatory requirements is given in Annexure -1C.

ii. The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given below. The report shall be submitted either by the Compliance Officer or the Chief Executive Officer of the company after obtaining due approvals.

Format of Quarterly Compliance Report on Corporate Governance
Name of the Company:
Quarter ending on:

Particulars	**Clause of Listing Agreement**	**Compliance status (Yes/No/N.A.)**	**Remarks**
1	2	3	4
I. Board of Directors	49 I		
(A)Composition of Board	49(IA)		
(B)Non-executive Directors' compensation & disclosures	(IB)		
(C)Independent Director	(IC)		
(D)Board Procedure	9 (ID)		
(E)Code of Conduct	9 (IE)		
(F)Term of office of non-executive directors	49 (IF)		
II. Audit Committee	9 (II)		
(A)Qualified & Independent Audit Committee	9 (IIA)		
(B)Meeting of Audit Committee	9 (IIB)		
(C)Powers of Audit Committee	9 (IIC)		
(D)Role of Audit Committee	II(D)		

(E)Review of Information by Audit Committee	49 (IIE)		
III. Audit Reports and Audit Qualifications	49 (III)		
IV.Whistle Blower Policy	49 (IV)		
V. Subsidiary Companies	49 (V)		
VI. Disclosure of contingent liabilities	49 (VI)		
VII.Disclosures	49 (VII)		
(A)Basis of related party transactions	IIA)		
(B)Board Disclosures	(VIIB)		
(C)Proceeds from Initial Public offerings	49 (VIIC)		
(D)Remuneration of Directors	49 (VIID)		
(E)Management	(VIIE)		
(F)Shareholders	49 (VIIF)		
VIII.CEO/CFO Certification	49 (VIII)		
IX. Report on Corporate Governance	49 (IX)		
X. Compliance	49 (X)		

Note:

1) The details under each head shall be provided to incorporate all the information required as per the provisions of the clause 49 of the Listing Agreement.
2) In the column No.3, compliance or non-compliance may be indicated by Yes/No/N.A.. For example, if the Board has been composed in accordance with the clause 49 I of the Listing Agreement, "Yes" may be indicated. Similarly, in case the company has not come out with an IPO, the words "N.A." may be indicated against 49 (VIIC).
3) In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the "Remarks" column as – "will be complied with at the AGM". Similarly, in respect of matters which can be complied with only where the situation arises, for example, "Report on Corporate Governance" is to be a part of Annual Report only, the words "will be complied in the next Annual Report" may be indicated.

X. Compliance

The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual returns filed by the company.

Schedule of implementation

(1) The provisions of the revised clause 49 shall be implemented as per the schedule of implementation given below:

(i) By all entities seeking listing for the first time, at the time of listing.

(ii) By all companies which were required to comply with the requirement of the erstwhile clause 49 i.e. all listed entities having a paid up share capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the entity . These entities shall be required to comply with the requirement of this clause on or before March 31, 2004.

(2) The non-mandatory requirement given in Annexure – 1C shall be implemented as per the discretion of the company. However, the disclosures of the adoption/non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.

Annex: Suggested List of Items to Be Included In the Report on Corporate Governance in the Annual Report of Companies

1. A brief statement on company's philosophy on code of governance.

2. Board of Directors

(i) Composition and category of directors, for example, promoter, executive, non-executive, independent non-executive, nominee director, which institution represented as lender or as equity investor.

(ii) Attendance of each director at the BoD meetings and the last AGM.

(iii) Number of other BoDs or Board Committees in which he/she is a member or Chairperson

(iv) Number of BoD meetings held, dates on which held.

3. Audit Committee

(i) Brief description of terms of reference

(ii) Composition, name of members and Chairperson

(iii) Meetings and attendance during the year

4. Remuneration Committee

(i) Brief description of terms of reference

(ii) Composition, name of members and Chairperson

(iii) Attendance during the year

(iv) Remuneration policy

(v) Details of remuneration to all the directors, as per format in main report.

5. Shareholders Committee

(i) Name of non-executive director heading the committee

(ii) Name and designation of compliance officer

(iii) Number of shareholders' complaints received so far

(iv) Number not solved to the satisfaction of shareholders

(v) Number of pending complaints

6. General Body Meetings

(i) Location and time, where last three AGMs held.

(ii) Whether any special resolutions passed in the previous 3 AGMs

(iii) Whether any special resolution passed last year through postal ballot – details of voting pattern

(iv) Person who conducted the postal ballot exercise

(v) Whether any special resolution is proposed to be conducted through postal ballot

(vi) Procedure for postal ballot

7. Disclosures

(i) Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large.

(ii) Disclosure of accounting treatment, if different, from that prescribed in Accounting standards with explanation.

(iii) Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

(iv) Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.

8. Means of communication.

(i) Half-yearly report sent to each household of shareholders.

(ii) Quarterly results

(iii) Newspapers wherein results normally published

(iv) Any website, where displayed

(v) Whether it also displays official news releases; and

(vi) The presentations made to institutional investors or to the analysts.

(vii) Whether MD&A is a part of annual report or not.

9. General Shareholder information

(i) AGM : Date, time and venue

(ii) Financial Calendar

(iii) Date of Book closure

(iv) Dividend Payment Date

(v) Listing on Stock Exchanges

(vi) Stock Code

(vii) Market Price Data : High., Low during each month in last financial year

(viii) Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.

(ix) Registrar and Transfer Agents

(x) Share Transfer System

(xi) Distribution of shareholding

(xii) Dematerialization of shares and liquidity

(xiii) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity

(xiv) Plant Locations

(xv) Address for correspondence